

HF
1418
LL7



Class HF1418

Book .U1

FREE ZONES IN PORTS OF THE UNITED STATES

598
109

LETTER FROM THE UNITED STATES TARIFF COMMISSION

TRANSMITTING

IN COMPLIANCE WITH THE REQUEST OF THE SENATE
COMMITTEE ON COMMERCE A REPORT UPON THE
POLICY OF ESTABLISHING FREE ZONES IN PORTS OF
THE UNITED STATES, TOGETHER WITH AN ANALYSIS
AND COMMENT CONCERNING THE BILL (S. 4153) TO
PROVIDE FOR THE ESTABLISHMENT, OPERATION, AND
MAINTENANCE OF FREE ZONES IN THE PORTS OF THE
UNITED STATES, AND FOR OTHER PURPOSES



19-26133

PRINTED FOR THE USE OF THE COMMITTEE ON COMMERCE

HF 418
267

UNITED STATES TARIFF COMMISSION.

Office: 1322 New York Avenue.

WASHINGTON, D. C.

Commissioners:

F. W. TAUSSIG, *Chairman.*

THOMAS WALKER PAGE, *Vice Chairman.*

DAVID J. LEWIS.

WILLIAM KENT.

WILLIAM S. CULBERTSON.

EDWARD P. COSTIGAN.

WILLIAM M. STEUART, *Secretary and Statistician.*

D. of D.
JAN 25 1919

TABLE OF CONTENTS.

Map of free port of Copenhagen, Denmark.....	Facing title page	Page.
Letter of transmittal.....		5
Preface.....		7

PART I.

Definition and purpose of a free zone.....		9
The policy of the United States.....		9
Inadequacy of bonding and drawback.....		9
Bonded manufacturing warehouse		10
Drawback.....		10
Illustrations of the inadequacy of the present system.....		11
The free zone and improved port facilities.....		12
Effect of new facilities.....		12
The business proper to a free zone.....		12
Importance of transshipment trade.....		13
Decline of transshipment trade of the United States.....		13
The necessity of recovering it.....		13
Tendency of this branch of trade to concentrate at free ports.....		14
Growth of the free port at Hamburg.....		14
Spread of the free port policy in Europe.....		14
Advantages expected from an American free zone system.....		15
Conclusions.....		17

PART II.

Proposed legislation, with comment and suggested amendments.....		19
APPENDIX		33

LETTER OF TRANSMITTAL.

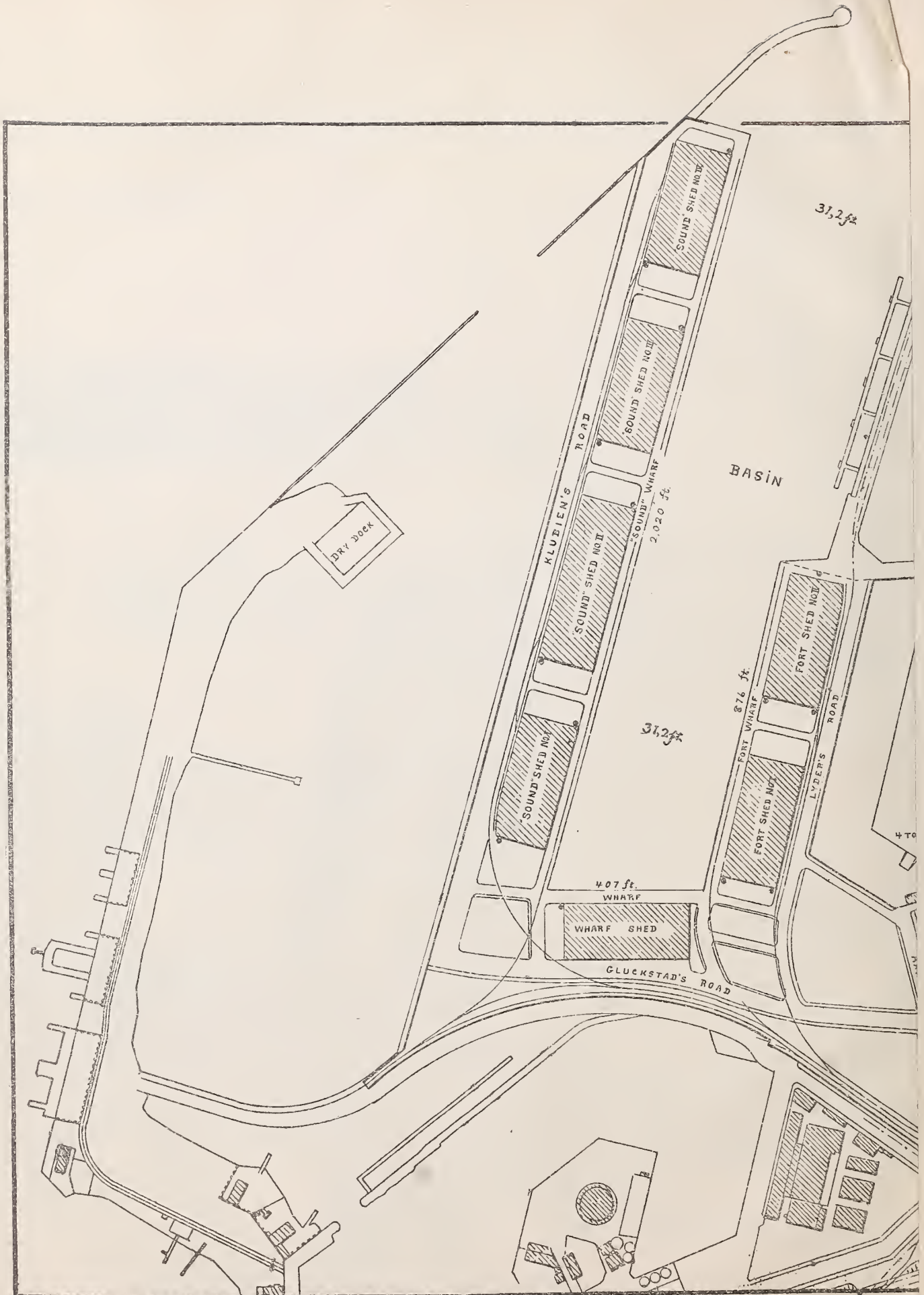
UNITED STATES TARIFF COMMISSION,
Washington, November 20, 1918.

HON. DUNCAN U. FLETCHER,
Chairman, Committee on Commerce, United States Senate.

SIR: In accordance with your request of May 3, 1918, the Tariff Commission respectfully submits herewith a report concerning the policy of establishing free zones in ports of the United States, together with comment concerning Senate Bill 4153.

Respectfully,

UNITED STATES TARIFF COMMISSION,
F. W. TAUSSIG, *Chairman.*
THOMAS WALKER PAGE, *Vice Chairman.*
DAVID J. LEWIS.
WILLIAM KENT.
W. S. CULBERTSON.
EDWARD P. COSTIGAN.



PREFACE.

The act of September 8, 1916, creating the United States Tariff Commission (sec. 702) declares:

It shall be the duty of said commission to investigate the administration * * * of the customs laws of this country * * *, to investigate the operation of customs laws, * * * and to submit reports of its investigations.

The duty of investigating the administration of the customs laws carries with it a consideration of the bonded warehouse, bonded manufacturing warehouse, and drawback systems as instrumentalities for assisting reexport in foreign trade. The free zone, as an alternative and supplementary device to this end, requires consideration. Specific request for investigation and report on this subject was made by the chairman of the Ways and Means Committee August 16, 1917.

On May 4, 1918, the following request was also received:

COMMITTEE ON COMMERCE, UNITED STATES SENATE,
Washington, D. C., May 3, 1918.

SIR: I am directed by the Committee on Commerce to refer to you the inclosed bill, S. 4153, and to request you to furnish the committee with such suggestions as you may deem proper touching the merits of the bill and the propriety of its passage.

I am,

Very respectfully,

DUNCAN U. FLETCHER, *Chairman.*

Hon. F. W. TAUSSIG,
Chairman United States Tariff Commission.

S. 4153 (identical with H. R. 10892) entitled "To provide for the establishment, operation, and maintenance of free zones in the ports of the United States, and for other purposes," was introduced in the Senate March 21, 1918, and in the House March 20, 1918.

In the course of the investigation—

Hearings were held in San Francisco, New York, and Philadelphia by members of the commission;

Information and data were sought through investigation by representatives of the commission in New Orleans and Galveston;

A questionnaire was sent out to several hundred merchants and shippers;

Study was made of the history and working of the free ports or free zones in Europe and of the laws and regulations controlling them;

Interviews were had with those familiar with free zone practice; and

Information as to recent foreign development was secured through the Department of State.

From data thus obtained the following report is compiled.

PART I.

DEFINITION AND PURPOSE OF A FREE ZONE.

The word "free" in connection with "port" or "zone" is apt to be misleading. It is proper to note, therefore, that the term has no relation either to port charges or to any policy of "free trade" or "protection" in this case. Conventional nomenclature is in this case misleading. A "neutral" zone would be more properly descriptive. A free port or free zone is a place, limited in extent, that differs from adjacent territory in being exempt from the customs laws as affecting goods destined for reexport; it means simply that, as regards customs duties, there is freedom, unless and until imported goods enter the domestic market.

A free zone may be defined as an isolated, inclosed, and policed area, in or adjacent to a port of entry, without resident population, furnished with the necessary facilities for lading and unlading, for supplying fuel and ship's stores, for storing goods and for reshipping them by land and water; an area within which goods may be landed, stored, mixed, blended, repacked, manufactured, and reshipped without payment of duties and without the intervention of customs officials. It is subject equally with adjacent regions to all the laws relating to public health, vessel inspection, postal service, labor conditions, immigration, and indeed everything except the customs.

The purpose of the free zone is to encourage and expedite that part of a nation's foreign trade which its government wishes to free from the restrictions necessitated by customs duties. In other words, it aims to foster the dealing in foreign goods that are imported, not for domestic consumption, but for reexport to foreign markets, and for conditioning, or for combining with domestic products previous to export.

Although the free zone is naturally conceived to be on deep water, and is commonly regarded as in many ways an extension of the open sea, there is none the less a possibility of its establishment in an interior location where rail and inland waters may bring about the assembling of foreign and domestic goods destined for export. It is pertinent to note that Switzerland is contemplating the establishment of a free zone at Basle, which is close to the industrial districts of France, Italy, Austria-Hungary, and the German Empire.¹

THE POLICY OF THE UNITED STATES.

The policy of the United States has not been unfavorable to the kind of commerce that the free zone is designed to promote. On the contrary, it has been the obvious intention of the Government to relieve reexport trade from the restrictions incident to the admin-

istration of the tariff and customs laws, and to that end three institutions have been devised.

- (1) The bonded warehouse, where goods intended for reexport may be entered and held free of duty.
- (2) The bonded manufacturing warehouse, where without payment of duty imported goods may be handled, altered, or manufactured solely for export, either with or without the admixture of domestic materials and parts.
- (3) The drawback, which is a repayment of 99 per cent of the duties paid on imported goods when they are exported.

The provision and retention of these three devices show clearly that it has not been the purpose of the United States Government to place unnecessary obstacles in the way of its citizens when engaged in international trade. That such obstacles have arisen is due to the fact that the three devices mentioned were inadequate wholly to relieve foreign commerce from the regulations and restrictions placed upon the importation of foreign goods for domestic consumption. It would therefore involve no change of policy to supplement these devices by a system of free ports or free zones such as have proved singularly effective in other countries.

INADEQUACY OF BONDING AND DRAWBACK.

There are certain features in the present bonded warehouse and drawback systems which detract from their usefulness in facilitating foreign commerce. Some of these features are inherent in the nature of the case; others consist of seemingly unnecessary hardships which can be ameliorated by a revision of the customs laws and the regulations accompanying them.

In accordance with the mandate of the law creating the United States Tariff Commission, we have studied the customs administrative laws, to the end of securing simplification and granting relief from what seems unnecessary procedure, and reported on August 26, 1918, our findings and recommendations. In so far as changes suggested in that report affect the procedure under bonding and drawback attention is called to the footnotes herein.

The purposes of the bonded storage warehouse are to relieve importers from the payment of duty on foreign products that in unchanged form are destined for reexport, and also to permit the postponement of payment of such duties until the time when, during a period of three years the owner desires to remove them. It can not aid in expediting the entry and

¹Appendix, p. 75.

clearance of shipping or the handling of merchandise, for vessels must submit to the same formalities and requirements, whether they bring dutiable goods or goods to be placed in bond, and the goods themselves, whatever their destination, must be valued, sampled, weighed, and tested before removal from the dock. Much of the delay necessarily incident to the proper assessment of duties on imports for domestic consumption is equally imposed on goods destined to be reshipped.¹

(a) To protect the public revenue from unauthorized entry of goods into domestic trade, the owner of the goods is required, under present procedure, to give bond in double the amount of the duty, which is forfeited if the goods are stolen, lost, destroyed, or fraudulently removed.²

(b) Even drayage between dock and warehouse must be done under bond.

(c) In addition, from the time they enter port until they are reshipped the goods are under constant customs control and supervision.

(d) While in the warehouse they must be placed and arranged in accordance with certain well-defined regulations, so that they may at any time be checked and inspected by special agents of the Treasury Department.

(e) Permits must be obtained for their reception and delivery, and strict accounts must be kept of all warehouse transactions.

(f) Except during the usual business hours the warehouse is closed by a Government lock, and to enter it at any other time requires special permission and payment for the overtime presence of a customs agent.

(g) Handling, sorting, mixing, or repacking of the goods is prohibited; only where serious damage is threatened can the original package be opened, and even then it must be done by special permission and under customs supervision.³

(h) Subject to these regulations, the expense of which it should be noted is made a charge upon the goods, an owner may leave his merchandise in bond for three years, but at the end of that time if duties are not paid they are considered, to use a technical expression, as "abandoned to the Government," to be sold by the Government, accruing charges and expenses deducted and the remaining proceeds turned over to the owner.⁴

The usefulness of the bonded warehouse is sometimes further restricted by the tariff practice of the country to which bonded goods are reexported. Thus, the Canadian law treats goods that have been held in American bonded warehouses exactly as if they had entered American domestic commerce.

¹ In the case of a ship landing part of its cargo in an American customs port and desiring to continue its voyage with the remainder of its cargo to a foreign port, the practice and the regulations make entry of such dutiable goods en route a simple matter.

² In the case of a vessel entering a port having part of its cargo destined for reshipment to a foreign port, it can transport its reshipment cargo to another vessel through bonded lighterage, with merely nominal customs procedure.

³ The suggested revision of the customs laws relieves the owner of the goods of this specific bonding, and looks to the owner of the bonded warehouse for safeguards against such removal.

⁴ The proposed revision provides permission for repacking, mixing, blending, cleaning, sorting, and in fact practically every process short of actual manufacture.

⁵ Under the proposed revision the President is given the power to extend this three-year term under war or any other emergency.

When imported from this country to Canada, such goods are assessed for duty at the foreign value increased by the amount of the duty they would have paid if they had entered the United States for domestic consumption. The effect of this regulation finds illustration in the business of a certain American firm dealing in foreign embroideries. In order to fill a Canadian order, this firm found it necessary to send goods from a bonded warehouse in New York to England where the goods were reinvoiced and thence shipped direct to Canada.

BONDED MANUFACTURING WAREHOUSE.

The mere statement of the regulations sufficiently indicates the limited usefulness, so far as export trade is concerned, of the bonded storage warehouse. Even more stringent are those applying to the bonded manufacturing warehouse. In the latter institution foreign materials may be entered free of duty and worked up into manufactures ready for consumption.

(a) Production can be carried on in such a warehouse for export only. With a few special exceptions, the output can not be disposed of in the domestic market, even on payment of duty.¹ The most important exceptions are metal from ore smelted in bond, and cigars "made in whole from tobacco imported from one country." Minor exceptions are found in a provision for the entry of Mexican peas, or Garbanzo, which have been cleaned at such warehouses, and in the permission to sell for domestic consumption by-products and waste arising in the manufacture of goods for export, provided duty is first paid on such articles as if imported from abroad.

(b) Before beginning operations the proprietor must file with the Treasury Department and with the collector of customs a statement of all the articles he intends to manufacture, giving the names of the articles, the exact kind and quantity of ingredients, and the formula of manufacture, and he must adhere rigidly to the formulæ set forth.

(c) He must also give bond in double the value of the goods he intends to produce.

(d) From beginning to end materials and operations are under strict customs supervision. A multitude of restrictions make the procedure intricate and expensive, and the penalties for violation are very heavy. Only in the most highly standardized industries is it possible to avoid frequent disputes and misunderstandings.

DRAWBACK.

The law authorizing what is known as drawback permits an importer, instead of placing his goods in bond, to pay duty on their entry and then to draw back from the Treasury on their reexportation 99 per cent of the amount paid. This provision, of course, can not any more than the bonded warehouse relieve commerce from the delays and other burdens incident to customs enforcement. The intent of the law is to aid production for foreign markets by relieving from customs dues imported materials that are manufac-

¹ The proposed revision permits withdrawal for consumption of all goods produced from bonded manufacturing warehouses.

tured or finished in this country and then shipped abroad. But the relief thus afforded, except in the sugar and tin-plate industries, has been relatively small, as may be seen from the following table:

Principal imported articles used in the manufacture of articles exported upon which drawback was paid.

[For years ending June 30.]

Article.	Tariff act of 1897.				Tariff act of 1909.						Tariff act of 1913.					
	1907	Per cent of total.	1908	Per cent of total.	1910	Per cent of total.	1911	Per cent of total.	1913	Per cent of total.	1914	Per cent of total.	1915	Per cent of total.	1916	Per cent of total.
Aluminum.....	\$65,589	1.20	\$16,501	0.24	\$189,639	3.06	\$303,894	4.74	\$245,894	5.40	\$254,123	8.02	\$151,169	2.05	\$75,492	0.49
Wheat flour.....	49,870	.91	50,153	.75	167,762	2.71	180,472	2.81	147,313	3.24	69,646	2.20	26,273	.35	52,865	.34
Cotton manufactures.....	18,824	.34	44,295	.66	27,569	.44	42,020	.65	56,296	1.23	25,033	.79	16,291	.22	24,250	.15
Fruits and nuts.....	22,916	.42	23,775	.35	37,439	.60	14,157	.22	52,016	1.14	50,735	1.60	58,279	.79	70,243	.14
Hides of cattle.....	907,387	16.66	845,433	12.73	504,051	8.15	264,638	4.13	93,068	2.04	940	.02				
Tin plates.....	1,325,282	28.01	2,359,486	35.54	1,899,585	30.72	1,461,479	22.82	45,271	.99	84,905	2.68	451,246	6.14	22,473	.14
Lead ore and bullion.....	256,829	4.71	365,591	5.50	266,614	4.30	429,202	6.70	481,336	10.59	375,018	11.84	184,569	2.51	98,952	.64
Oils (rapeseed and other).....	33,070	.60	40,499	.61	53,102	.85	56,292	.87	61,139	1.34	48,451	1.53	44,471	.60	39,797	.26
Sugar and molasses.....	1,031,528	18.94	1,110,299	16.72	1,933,037	31.26	2,000,154	31.23	1,443,887	31.77	658,319	20.79	5,412,620	73.74	13,776,451	90.18
Zinc.....	44,788	.82	37,598	.56	40,828	.66	156,213	2.43	90,949	2.00	163,114	5.15	81,966	1.11	29,636	.19
Opium and manufactures.....					10	.0001	544	.008	330	.007	1,103	.03	22,207	.30	372,978	2.44
Chemicals, drugs, and dyes.....	86,106	1.55	140,549	2.11	64,708	1.04	41,499	.64	51,918	1.14	39,044	1.17	43,397	.59	136,300	.89
Glycerin.....	39,445	.72	53,553	.80	54,176	.87	63,872	.99	39,290	.86	15,950	.50	59,234	.80	53,394	.34
Total.....	5,445,151		6,637,602		6,182,375		6,402,603		4,543,536		3,165,082		7,339,236		15,275,686	

It is obvious from these figures that scores of industries in this country that now use foreign materials to produce goods for export do not exercise the drawback privilege at all. The reason is that, for the prevention of fraud, the privilege is so hedged about with exacting and intricate regulations that the amount of the drawback very often does not pay for the labor and cost of collecting it.

(a) To prove the identity of goods on which drawback is claimed requires a minute checking of imported elements entering into the manufacture, with the right and oftentimes with the need of examining into factory management sometimes threatening the disclosure of trade secrets of importance. So complicated is the procedure in making claim and proving identity that many producers do not find it worth while to apply for drawback at all. Large-scale industries, like sugar refineries and those compelling the use of large quantities of tin plate, go to the expense of employing experts permanently to look after their drawback interests.

(b) Every step must be taken subject to customs inspection, and oaths are required from importers, superintendents, and exporters.

(c) Even after reshipment, before drawback can be recovered, evidence must be given of the actual landing of the goods in a foreign country.¹

(d) At best, under the smoothest operation of the law, that part of the owner's capital advanced in payment of duties is tied up in the Treasury from the time the goods are imported until 30 days after they are reshipped.

ILLUSTRATIONS OF THE INADEQUACY OF THE PRESENT SYSTEM.

At the hearings conducted by the Tariff Commission and in the replies to its questionnaire numerous instances were adduced illustrating the inadequacy of the bonding and drawback system. To a few of these attention may be here directed.

Rice milling is an industry for the successful prosecution of which all conditions appear to be favorable

in the United States except a sufficient supply of raw material. The industry is now limited almost entirely to the preparation of the domestic product for domestic consumption, and this does not furnish full employment. It requires expensive specialized machinery and much skilled labor that must be engaged by the year. But testimony was presented showing that the largest mills are idle much of the time, because the domestic crop can keep them in operation for only half the year. Efforts have been made to use the idle months in cleaning and milling oriental rice, the supply of which is very large, for reexport to the West Indies and Spanish America. To do this work profitably the rice must be imported in full ships' cargoes and handled in bulk through grain elevators. These cargoes usually are about 6,000 tons, and as there is an average duty of one-half cent a pound on rice, the duty that must be paid on a full cargo is \$60,000. The importer, of course, would be entitled to a drawback on such quantity of the rice as was reexported; but it was the unanimous testimony of the mill officials interviewed that the business had to be discontinued because of the difficulty, delay, and expense of securing the drawback.

Again, it was found that imported flowers and feathers and imitation feathers are extensively used in this country for trimming women's hats, the model or frame of which is an article of domestic production. Also Panama and imitation Panama hats for the use of both men and women are imported from Central and South America and finished in the United States with the use of domestic materials. The industry has been almost entirely limited to supplying the domestic market, for our manufacturers have found themselves hampered in competing for foreign markets by the restrictions of our bonding and drawback system.

The effect of these systems on dealers in highly finished goods is perhaps best seen in the case of laces and embroideries. These are manufactures for which Spanish America offers a large and lucrative market which heretofore has been almost entirely supplied from Europe. Commodities of this character are apt to be included in the same order with a variety of other goods, and the order naturally goes to the dealer who can fill it as a whole at the lowest price, in the

¹ Under the proposed revision of the customs laws, the landing certificate requirement is abolished, excepting when, in specific instances for reasons assigned, the Secretary of the Treasury shall call for such procedure.

shortest time, and in the most convenient form. The order often includes specialties covered by trade-mark that are produced in different countries. To engage successfully in this trade, therefore, the merchant must be able not only to furnish the goods of his own country but also to assemble, sort, and repack foreign merchandise for convenient delivery. This kind of commerce American merchants are precluded from entering except under the greatest difficulties. In many parts of South America merchandise has to be transported for long distances in carts or on the backs of mules or llamas. It must be packed, therefore, with the least possible weight and in such form that the packages may be evenly balanced. Furthermore, dry goods are usually dutiable in those countries at specific rates by weight, so that the lighter the carton or covering the lower the duty will be. But our bonding system does not permit the original packages received from Europe to be broken and rearranged. And if American manufacturers of clothing use imported laces and embroideries in making women's wear, the difficulty of identification and the expense of collecting a drawback are so great that when they export such goods they frequently prefer to forego the claim. One American exporter testified that his firm found it necessary to take goods from bonded warehouses in the United States and ship them to a West Indian port where they might be repacked and thence forwarded to destination.

Such are specific illustrations brought out at the hearings and in the correspondence conducted by the Tariff Commission showing the need of American industry and commerce for more liberal arrangements in handling and transshipping foreign products. Before pointing out how this can be accomplished through the establishment of free zones, it should be said with the greatest emphasis that the advantages to be enumerated can be attained in full measure only through the observance of certain prerequisites such as are set forth in the bill, comment on which forms the second part of this report. The free zone or port that is here contemplated is one of the character provided for in that bill.

THE FREE ZONE AND IMPROVED PORT FACILITIES.

The most important prerequisite is that such a port shall provide properly coordinated, modern, and efficient physical facilities for the lading and unlading of cargoes, the entry and clearance of vessels, and the handling of merchandise. In the main, wharves, docks, piers, terminal facilities, and other necessary features of American ports have developed with few exceptions by a process of planless accretion. They are exposed to frequent fluctuations between slackness and congestion, and recent experience has proved them altogether unprepared for emergency. The uncertainties of business discouraged the installation of costly modern equipment, and this in turn increases the direct labor charge and adds to the expenses of trade. The privileges of a free zone, through the promotion of commerce in regions naturally adapted for it, would attract capital to the creation of the facilities that should in every case be made an indispensable prerequisite. The detailed specification of these facilities should be made by the Secretary of Commerce, and might well vary somewhat from port to port with a view to proper adjustment both to topo-

graphic conditions and to the volume and character of the commerce to be handled. In the judgment of the Tariff Commission it is highly important that the necessary capital should be provided, not by the Federal Government, but by the State or municipality within which the free zone is established. The necessity of meeting the cost of construction and equipment from local resources would go far to limit the application for free zone privileges to those ports where there is a prospect that the acquisition of them would be justified by the results; while, on the other hand, the hope of securing a Government appropriation would attract an application from every handling place on the coast.

EFFECT OF NEW FACILITIES.

The subject of providing new facilities can not be dismissed without reference to its probable effect on facilities already existing and the investments that have been made in them. The prospect that a publicly financed free zone with its elaborate equipment would destroy the usefulness of the facilities already constructed at great cost in our ports would arouse a widespread and not unjustified opposition to its establishment. The inquiries of the Tariff Commission, however, lead to the belief that no such destruction would be entailed. The experience of foreign countries has been that the growth of business in a free zone has been accompanied by a material although smaller increase in the use also of the previously existing facilities. The trade, for example, in the free port of Copenhagen grew in seven years by 400 per cent, while at the same time the trade of the old, or customs, port not only escaped a loss, but actually showed some gain. The purpose of a free port is not to divert business from those that now transact it, but to provide for new business that under present circumstances can not grow as it might. The testimony of men familiar with present arrangements was emphatic to the effect that there would be little or no diversion of the passenger traffic or of the handling of dutiable goods and of the few goods that now make substantial use of the drawback and bonding system. Some diversion, indeed, might well be wished for by all concerned, in view of the congestion witnessed in recent months at American ports and the obvious incapacity of existing facilities to handle the present commerce with convenience and dispatch.

THE BUSINESS PROPER TO A FREE ZONE.

The questions now arise, Whence is the new business destined for a free zone to come, and in what way will it profit the country? Partial replies have already been suggested in what was said above with regard to the bonding and drawback systems. The business proper to a free zone consists in receiving and manipulating foreign products and reshipping them in the direction and at the time to take advantage of the best foreign markets. This is not only a profitable business, it is also becoming a necessary business to our industrial growth. For however wide the range of goods we produce and however effective our methods of production, we can sell our products to best advantage only when the purchasers are able to pay for them with products of their own. If we do not accept their products, they must sell them in some third country and transfer to us the credit they thus acquire—unless,

indeed, they forego buying our goods at all and make their purchases in the country where they make their sales.

IMPORTANCE OF TRANSSHIPMENT TRADE.

In the modern maritime nations the business of assembling and preparing the products of foreign countries for transshipment and redistribution abroad has grown steadily in volume and importance. Statistics are not available for an accurate statement of the amount of goods thus handled, but estimates putting their annual value in normal years at approximately four billions of dollars do not seem exaggerated. They consist in the main of the raw materials of those countries that have not attained a high stage of industrial development and that are dependent on the maritime nations for the transportation of their products and the supply of their necessities. To some extent, however, manufactured and partly manufactured goods enter the trade. This occurs when the country conducting the trade does not itself produce the particular manufactures that are demanded. In such a case the goods are purchased where they are produced, transshipped in the trading country, and sold where they are wanted. It is well known that only by such a triangular route and through the hands of foreign dealers have many American specialties entered the markets of South America and the Orient. Obviously, a country engaged in this business benefits from it in a number of ways. It receives the profits on merchandising and transportation; its producers have first choice at lowest prices of the materials handled; and it can sometimes gradually build up a preference for its own products in supplying foreign markets. How small is the share of the United States in these benefits is indicated by the fact that the transshipment trade has not been deemed important enough to deserve separate statistical statement. In the annual reports of the Bureau of Commerce and Navigation, Table 8 combines the value of the goods transshipped and the value of goods in transit that merely cross United States territory in bond from one foreign country to another. All together in 1914 they amounted to the considerable value of \$198,303,232, but not less than \$155,847,478 of this was for goods in transit to and from Canada.

DECLINE OF TRANSSHIPMENT TRADE OF THE UNITED STATES.

Our part in this business has not always been so insignificant. A little more than a century ago Europe was involved in a war almost as paralyzing to commerce as that now in progress. During its continuance, except for the period of our second war with England, not only the trade of this country but a great part of the whole sea-borne commerce of the world was conducted by American merchants, carried on American ships, and financed by American capital. After the coming of peace, however, in spite of the swift growth of international trade, her share of it steadily diminished, until in the present generation her ships have carried less than 10 per cent even of her own foreign commerce. Numerous causes contributed to the decline; prominent among them, of course, was the strengthening competition in time of peace of those maritime countries whose absorption in war had given America her easy supremacy. Chaotic banking con-

ditions in this country also long played an equally important part. An added disadvantage was found in the change from wooden ships, which had been built cheaply in America and of better quality than elsewhere, to iron and steel vessels, in the construction of which American enterprise was lagging. Finally, during the Civil War the hazards of foreign trade led not only to the wholesale transfer of American tonnage to foreign registry, but also to the almost complete withdrawal from that field of American capital and enterprise. But while these and other things contributed to the same result, the most potent and continuous cause for the decline of maritime commercial interests in the United States lay in the more attractive opportunities found in other fields of industry. The settlement of the interior, the growth of manufacturing, the building of railroads, the development of internal resources of many kinds created a demand for labor and capital and offered rewards that foreign trade under competitive conditions did not afford. Commercially the United States became passive instead of active. Exports and imports, it is true, continued to grow; but the management, the direction, the transportation, and other mercantile operations connected even with her own trade, together with the profits arising from them, in large measure passed to foreigners, while her share in other branches of international trade was almost entirely lost. In the early years of the nineteenth century the value of foreign products reexported from America was nearer a half than a third of the value of her total annual imports; in the early years of the twentieth century the ratio was only about 3 per cent.

THE NECESSITY OF RECOVERING IT.

The chief causes for the decline of American maritime enterprise now no longer operate. The outbreak of the present war has again forced the United States into a position of prominence in international trade. It has devolved upon this country to find capital, to furnish ships, to modify her own production, and to assemble and redistribute many products of other lands. Widespread interest has been aroused and considerable investments have been made in this long neglected field. For the promotion of foreign trade new corporations have been formed and old ones expanded, a great merchant marine is under construction, the banks have extended their foreign agencies and created new ones; indeed, it is not too much to say that American business as a whole tends to be reorganized on the basis of a permanent widespread and varied foreign commerce in which Americans shall be active participants. Even before the war it was already generally recognized that industry was becoming constantly more dependent on foreign markets, and that to secure and maintain these it was necessary not only to provide goods that foreigners might want but also to furnish in return a market for their products. And since for many of these products there was no demand in the United States, it followed, if they were to be received by American merchants in exchange for American goods, that these merchants should find a way to dispose of them in some other country where a demand did exist. It was already clear that industrial prosperity at home would be advanced if this country should play a larger part in the organization and conduct of international com-

merce as a whole, and this larger participation appeared equally desirable under conditions of peace as in time of war. The present war, therefore, by no means created the need for commercial expansion, but it has emphasized the need for it and has powerfully stimulated the growth of it. It has enabled, and indeed compelled, the United States to occupy a place in the world's commerce the retention and improvement of which will greatly contribute to her future welfare. Thoughtful men everywhere now see in the expansion of our foreign trade an added benefit to our internal prosperity.

TENDENCY FOR THIS BRANCH OF TRADE TO CONCENTRATE AT FREE PORTS.

During the nineteenth century, after the withdrawal of the United States from this branch of trade, it tended to be concentrated for the Occident at the ports of the English Channel and the North Sea and for the Orient at Hongkong and Singapore, and it is significant that in these ports commerce with all nations was most free and least hampered by customs regulations. It can not be claimed, of course, that their commercial prosperity was due solely or even mainly to freedom from this particular handicap. Many conditions must be favorable and many forces must combine for the building up and maintenance of a great foreign commerce. But it is a field of enterprise in which competition appears in its most active form, and experience in the last 50 years clearly shows that the absence of artificial restrictions will frequently suffice to direct the flow of international trade. Thus while Fiume, Trieste, Pasajes in Spain, and even Dantzic on the Baltic did not achieve great commercial expansion by virtue of their free-port privileges, yet the beneficial influence of similar privileges at Hamburg, Copenhagen, and elsewhere has been great and unmistakable.

GROWTH OF THE FREE PORT AT HAMBURG.

Of modern free ports, their management, character, and successful operation, Hamburg furnishes the best illustration. This city has always been dependent on its commerce, and as long as it was an independent republic it arranged its customs regulations with a view to the least possible interference with trade compatible with fiscal requirements. The formation of the German Empire in 1871, with a tariff system common to all the component States and administered by the Imperial Government, threatened to destroy Hamburg's prosperity and to divert much of her commerce to the rival ports of England and Holland. The city, therefore, long refused to enter the Imperial customs union. In 1882 a compromise was effected, by the terms of which Hamburg was permitted to maintain an area, accessible by both land and water, where goods from all parts of the world might be landed, handled, and reembarked without any interference whatsoever from customs officials. This area was to be a free port, and only when goods passed through its gates into the interior of the country were the duties levied under the German tariff to be collected on them. In addition to the privilege thus accorded, Hamburg received a cash payment of 40,000,000 marks, and the money was used by the municipal authorities to improve the site selected on the river bank, and to construct facilities for the most efficient

handling of a great commerce. They planned largely, anticipating rapid growth, but development so far outstripped their expectations that several times within a generation both space and equipment had to be greatly increased. Without doubt the growth was due in largest measure to the economic development of the German Empire, for which Hamburg serves as the chief port, and the direct trade between Germany and foreign countries is conducted, of course, under the ordinary customs regulations. But equally, without doubt, it was the creation of the free port that enabled the city to become an important center for the commerce between other nations and a great consignment market for products from almost all parts of the world. Unfortunately, official statistics make no distinction between German goods and foreign goods shipped from the port, but a careful estimate for the last year before the war puts at \$200,000,000 the value of the foreign products exported. These figures illustrate only the importance of the transshipment trade; they give no indication of the advantage to German manufacturers of having at their door a convenient assembling place for the materials which they need nor of the degree to which the markets for German goods were extended through Hamburg's ability to receive and dispose of the products of other countries.

SPREAD OF THE FREE-PORT POLICY IN EUROPE.

It is of interest to note the spread of the free-zone idea and free-zone practice throughout the world. Hamburg has, of course, been closed in by war conditions. No statistics are available since 1907 of that most important exponent of the policy. There are available from Copenhagen, next in importance, statistical tables of 1910. There the free port was immediately found to be too small for the commerce produced, and there is continuing enlargement.

Spain, in 1914, authorized a free zone at Cadiz. Barcelona secured the same privilege in 1916, Bilbao and Santander in 1918. There has been a temporary setback in improving the zones under the privilege, owing to the fact that the Spanish Government reserved the right to a revocation at any time and did not offer the security of a term grant. It is now expected that the free-zone privilege will be given with such terms as to encourage investment by public and private corporations.

Sweden, anxious to share in the transit trade of the Baltic, is establishing free zones at Gothenburg and Malmö.

France has long been agitating the question and has, during many years, received reports and has had bills introduced, which, up to the present time, have not been enacted into law. The most recent report received through the State Department is to the effect that the matter is still under serious consideration. A consular report from Havre states that it is anticipated that Havre and Marseille, among other French ports, would be equipped with free-zone privileges, with the probable exclusion of manufacturing.

Norway is shown by our consular reports to be interested in establishing a free port at Christiania.

Portugal has authorized the privilege by law, and the latest information was to the effect that establishment was being made at Lisbon.

Quoting from statements by Mr. H. R. Geddes, the managing director of the Continental Daily Parcels

Express and Northern Traffic (Ltd.) and one of the leading commercial experts in Great Britain, made in 1918, we are informed:

Sweden proposes to establish free ports at Gothenburg and Stockholm, and Norway is discussing the possibilities as to Christiania. Denmark is making preparation on a large scale to retain the increased trade done at Copenhagen and to control the tremendous trade in the Baltic, and served by the gulfs of Bothnia and Finland, for Scandinavia and Russia. The German ports, however, will make it as uncomfortable as possible for Denmark.

Russia, under the old régime, proposed to establish a free port at Novy Port, Petograd. This scheme is probably now in abeyance.

Switzerland is thinking very seriously of inaugurating a free area at Basle and catering for the transit trade of France, Italy, and the German and Austrian Empires. A glance at the map would show the possibilities of this scheme.

Great Britain is seriously considering the establishment of free zones throughout the Empire. There have already been great transshipment agencies free from customs interference at Hongkong, Gibraltar, and other points, but these differed from the technical free zones established under more rigorous tariff systems.

Low-tariff countries and countries having few articles on the dutiable list have not needed such installation, as was evidenced in the trade of Belgium, Holland, and the British Isles; but Great Britain, now faced with the need of larger revenue, with the possibility of higher and more inclusive tariffs, feels the need of customs immunity in her transshipment trade and is considering the establishment of free zones as discussed in this report. A parliamentary return dated March, 1918, by a departmental committee appointed by the board of trade, concerning itself with the shipping and shipbuilding industries after the war, states (p. 119, par. 352 of its final report, under the head of "General recommendations"):

Free ports.—In this connection reference must be made to the free-port system prevailing in many foreign countries. Should it be decided, whether for revenue or other purposes, to extend widely the range of duties on imported articles, the question of creating similar free ports in the United Kingdom would become a matter of pressing importance. It is essential that the position of the United Kingdom as a great transshipment and entrepôt center should not be impaired, and the best means of safeguarding these national interests would undoubtedly be by the establishment of free-customs areas on a large scale at the ports principally concerned.

In this connection attention is called to the information afforded by Mr. Geddes's speech before the Dover (England) Incorporated Chamber of Commerce, on February 14, 1918, printed in the Appendix (p. 74).

ADVANTAGES EXPECTED FROM AN AMERICAN FREE ZONE SYSTEM.

Detailed statements of the advantages to be expected from a free-zone system were given by various business interests that would be affected by its establishment, in answer to a questionnaire sent out by the commission. The more important of these advantages may be summarized under the following heads:

(1) *In simplifying entry and clearance.*—Time lost by merchant vessels, whatever be the cause of it, is always costly, and owners in forecasting profit or loss must reckon closely the probability of delays that involve the idleness of ship and crew. It is well known that such delays, varying from several hours to several days, are imposed by customs procedure on vessels entering and clearing at American ports. Officials and ships' officers of regular lines, it is true, acquire a familiarity with the regulations that enables them under normal conditions to reduce the delay to a few hours; but the typical commerce carrier, the "tramp

steamer," the chartered vessel, that is free to seek business wherever its services are in demand, finds the delay much more serious, and in the event of misunderstanding and a consequent failure to follow the prescribed procedure the owners incur penalties that may change the result of a voyage from profit to a loss. The formalities for making entry must be rigorously discharged, and the regulations for handling and unloading cargo are strict and detailed. All vessels immediately on arrival are boarded by customs inspectors and remain in customs custody, together with their cargoes, until they are unladen and cleared. Vessels designated as common carriers by the Secretary of the Treasury, upon giving bond and paying double compensation for the extra time of weighers and inspectors, may, if they wish, receive or discharge cargoes at night and on Sundays and holidays; but otherwise loading and unloading are permitted only during the usual business hours in open day. The entry of goods is little less technical and time consuming than the entry of vessels. Even after it has left the ship dutiable merchandise can not be removed from the wharf or place where it is landed until it is weighed, gauged, or measured, or—in the case of spirits and sugars—until the proof or quantity and quality are ascertained and properly marked. Disputes are inevitable with regard to such matters as valuation, obliterated marks, damaged goods, broken packages, and they necessarily impede the smooth flow of goods away from the piers. This tends to cause congestion, which in turn delays further discharge of cargo and adds to costs and charges. The situation is sometimes made worse by practices that under the present system it is difficult to prevent. A committee of the San Francisco Chamber of Commerce reports:

In our experience in San Francisco we found that many times consignees are unfair in a practice of making the customhouse an excuse for keeping cargoes on the wharf longer than they should be kept; and freight congestion is alleged to be due to inadequate wharf arrangements, when, in fact, it is frequently a case of juggling in order to secure free storage on the piers. It is a very serious and costly detriment to a port to have the wharves piled up with goods because real and frequently pretended customhouse requirements compel it.

It is too obvious to require discussion that shipping is aided by prompt docking, the uninterrupted discharge of cargo, quick lading, and an early clearance. The time and expense thus saved are a weighty argument for a free zone.

(2) *In equalizing inbound and outbound traffic.*—Adequate facilities and simplicity of regulations for entry and clearance will do much to stimulate shipping at American ports. But for the stimulation to be effective and to give practical aid to the growth of commerce there must be reasonable certainty that ships will find cargoes both in and out bound. In the lack of this certainty the trade of the United States differs in marked degree from that of other highly developed nations. It is true that the import and export trade of this country, taken as a whole, is very great. But in no direction is there any reasonable balance of the tonnage required for the inbound and that required for the outbound traffic. Thus in the trade with Europe exports require much more shipping than imports. Many ships, therefore, must come from Europe in ballast, or take cargoes under competitive conditions that make inbound freight rates relatively low; and it follows that all or the greater part of the cost of the whole voyage must often be

made up by the charges imposed for transporting American merchandise to Europe. In our trade with South America the situation is very different, for the inbound tonnage is markedly greater than that outbound. Consequently, except for the few regular liners engaged in this field, ships bringing South American produce must return in ballast, or must ply from port to port seeking a precarious cargo. In preference to either of these alternatives they usually load in the United States for England, Hamburg, or Copenhagen, where they expect to find with reasonable certainty a full cargo back to South America. Similar inequalities exist in our commerce with many other parts of the world. With some countries, indeed, whose produce we buy and where a demand exists for American goods, we have little or no direct communication. Our trade with them is almost entirely conducted through transshipment in foreign countries, an indirect method that both increases its cost and subjects to foreign control its volume and variety.

(3) *In facilitating dealings in foreign products.*—It is obvious that relief from the inequalities described, the maintenance of regular and adequate transportation facilities and the establishment of moderate and stable freight rates can come only through the growth at American ports of traffic that moves both inward and outward on the same course. The free zone will promote this growth by giving greater freedom to the import of goods not for domestic consumption but for transshipment to other countries. We should provide full cargoes for ships wishing to clear for countries to which our exports of domestic merchandise are as yet small and irregular, in order that such exports may find ready and cheap transportation; and we must receive full cargoes from other countries to which we sell in larger volume. Preliminary to reshipment foreign goods thus imported frequently require sorting, cleaning, blending, repacking, and other forms of manipulation to adapt them for the market to which they are to be consigned. For such work, as has been already pointed out, the bonded warehouse and the drawback are inadequate and, in a measure, inevitably so. And the free zone appears to offer the only sufficient means of permitting it and, at the same time, of protecting the revenue and maintaining such limitations as the Government sees fit to fix for the import of foreign goods for domestic consumption.

(4) *In stimulating certain branches of manufacturing.*—Less important than the preparation of foreign merchandise for reshipment, but not altogether insignificant, is the opportunity the free zone affords for the manufacture of export goods partly from domestic and partly from foreign raw materials. Many such goods are now made in this country, but owing to the duty on the foreign materials relatively few of them can be exported in competition with foreign producers. It is impossible precisely to specify in advance the branches of manufacturing that would use the opportunity thus offered. In general, aside from industries peculiarly related to the repair and outfitting of ships, its chief attraction would be to those manufacturers in the cost of whose finished products the cost of dutiable foreign materials forms an important part. There readily come to mind under this head such products as cigars, straw hats, certain chemicals, medicinals, and fertilizers, certain kinds of confectionery, brushes made of prepared bristles, preparations of fruit, rice, and other foodstuffs. But it is

fairly certain that many such commodities would not be produced in the free zone. For some of them production for export has been fairly stabilized under the bonded warehouse and drawback systems. In the case of others the inducements of the foreign market alone are not enough to justify investments for their production, and their entry into the domestic market would be subject to restrictions identical with those imposed on foreign manufactures. The manufacturer proposing to enter the free zone would have to base his calculations of profit on the prospect of manufacturing solely for export. This is practically a new field for American capital and enterprise, and before entering it a close scrutiny would be necessary of the problems and possibilities peculiar to each separate branch of production. In all likelihood, therefore, its development would be slow and long confined within narrow limits. Even with such a prospect, however, it is not without importance. It should be remembered that the list is lengthening of American manufactures made up in large measure of foreign materials and parts. Not a few manufacturers of such commodities have already found it expedient to establish branch plants abroad, a practice that is strongly marked in the case of sewing machines, typewriters, shoe machinery, and other typically American products. While it is true that the practice is due chiefly to foreign patent legislation, foreign duties on finished manufactures, and some other causes that operate in special cases, it is also true that it is often promoted by the American duties on materials and parts that have to be imported. It is not unreasonable to believe, therefore, that by some manufacturers the free zone would be preferred to a foreign location for branch plants. "Broadly speaking," says an experienced American producer, "my idea is that small parts, requiring extensive labor application in creating the articles, could be made in Europe and the heavier and broader work done here; and instead of the American industry losing the entire article, part of the article would continue as American manufacture, and the profit accruing on the small parts—which would be assembled in this zone and placed in the machine—would also naturally remain as American capital."

(5) *In stabilizing transshipment trade under varying tariff policies.*—Of all the advantages to be expected from a free-zone system that which might be looked for with the greatest certainty would arise through freeing the transshipment trade from the unsettling effects of tariff charges. At present American merchants importing foreign goods with a view to reshipment abroad must reckon the costs entailed by the bonding and drawback systems, and these costs necessarily differ with every change in the rate of duty. An impending tariff revision, therefore, causes wide fluctuations and sometimes a complete interruption of this business, and much time elapses before broken connections can be restored. Any uncertainty connected with the national tariff policy thus becomes a serious handicap to the very branch of commerce which it was never intended that the tariff should affect. For half a century, it is true, this branch of commerce has been relatively so insignificant in the United States, that it has been ignored in the framing of successive tariff acts. Should it, however, attain the development promised by the fulfillment of present tendencies, its security will demand either a very

stable tariff policy or the provision of neutral zones for its transaction. In this connection it may be noted that the advocates of a more extended tariff system in England are now incorporating in their policy proposals for a system of free ports.

(6) *Miscellaneous advantages.*—There are other advantages, incidental but practical, that are expected of a free-zone system by its advocates. Among them is the feasibility of removing the present restriction of the bonding privilege to a period of three years; the provision of adequate space and facilities for exhibiting goods and samples, and for demonstrating methods of selecting and packing merchandise so as to meet foreign requirements; a reduction in the costs of drayage and of other processes in handling goods. Again, it is urged that while there are some charges, such as taxes and wages, which will undoubtedly be as high within the zone as without, there are others, such as insurance, rents, and the charges for guarding against violation of the revenue laws which should be lower than under the present system of scattered and more or less antiquated bonded warehouses. There are additional arguments for the free zone based on practices that have proved commercially advantageous in Europe. Mention may be made of the peculiar acceptability at Copenhagen of free-port warehouse certificates as collateral for advances. The thorough police and fire protection provided there, the exemption of goods in storage from all customs claims, and the adequate precautions taken against deterioration render the certificates exceptionally desirable securities. In consequence, according to the testimony of men familiar with conditions at Copenhagen, advances on free-port warehouse certificates may be had on more liberal terms than on the certificates of private warehouse companies.

CONCLUSIONS.

Such are the advantages, concisely stated, that may accrue from the establishment of a free-zone system. They are necessarily contingent, for the reason that they are found in a kind of commerce which for several generations has existed in this country in relatively insignificant amount. It is evident that the success of a free zone and all the claims that are made for it will depend on two things, namely, the volume and character of its commerce and the efficiency of its construction and operation. This explains why the results of European experience have differed in different ports. Some have not succeeded; others have made good returns on the capital invested in them, have reduced the expenses of shipowners and merchants, and have given a widely felt stimulus to business. Obviously, the free zone alone can not create commerce; it can only facilitate the operation of the forces that do create it.

At the present time the commerce proper to a free zone exists in relatively small volume at the ports of the United States; and since investments for construction and equipment would have to be made with a view to its future growth, they would be in large measure speculative. But many of the conditions formerly limiting American participation in international trade no longer exist, and within the last few years the joint influence of new forces has given to our commerce an expansion that has taxed our port and harbor facilities even beyond their capacity. Active measures for the retention of this commerce after the war will be necessary; at the same time, its present importance and the possibility of its further development underlie the confidence of those who advocate a system of free zones. But at any American port at which a free zone is proposed, before capital is put into such an enterprise, there would be necessary a careful and detailed study both of the cost of construction and operation and of the likelihood of commercial expansion in the particular field to which free-zone facilities and privileges would be adapted. It is clear that costs and prospects would vary widely from port to port. Some are natural points for the consignment, distribution, and debouchment of goods; others are not. At all of the ports, however, where conferences were conducted by the Tariff Commission—notably at New York, Philadelphia and San Francisco—merchants, shipowners, and other classes of business men regarded the establishment of a free zone as a wise measure of public policy and an enterprise promising financial profit. Resolutions of organizations in these and other cities, indicating the thoughtful opinion of business men, are included in the appendix to this report. There are also appended sycopated reports of hearings conducted by the Tariff Commission.

The legislation proposed in the bill, comment on which forms the second part of this report, is merely permissive in character. It leaves the initiative to the locality and puts upon it all risk and responsibility. In the judgment of the Tariff Commission this is as it should be. The Federal Government can give no preference to the ports of one State over those of another. Under the bill as drafted each State or political subdivision thereof is permitted, subject to general requirements that are the same for all, to establish and equip at its own expense a zone wherein foreign merchandise may be entered free of duty.

After exhaustive study of foreign institutions and careful investigation of American conditions and mercantile opinion, the Tariff Commission recommends the policy of permitting the establishment of free zones in American ports, and indorses, with certain suggested amendments, the bill S. 4153, as shown in the reprint, analysis, and comment which follow.

PART II.

Proposed Legislation, with Comment and Suggested Amendments.

INTRODUCTION.

The bill considered in this report (S. 4153) was introduced in the Senate by Hon. Morris Sheppard on March 21, 1918, and identically introduced in the House (H. R. 10892) by Hon. J. Y. Sanders, March 20, 1918. It was carefully drawn in consultation with the gentlemen mentioned, after full consideration of American conditions and a study of European legislation. Especial attention was given to the laws authorizing and controlling the privilege in the great free zones in the ports of Copenhagen and Hamburg. In the appendix will be found details of the law concerning Copenhagen, together with other legislation, either enacted or proposed, in other countries. All these laws and proposed laws recognize the same essentials as to physical requirements and Government control, and all propose practically identical methods of encouraging commerce and protecting revenue.

The commission is of the opinion that the privileges granted in this general enabling act should be confined to public corporations, and to that end has suggested how the bill may be adapted to the exclusion of primary free-zone concessions to private individuals or corporations.

The great facilities to be erected and established under the bill would necessarily be public in their nature and functions. If undertaken by none except public corporations, many restrictive requirements and penalties needed to prevent abuses under private management could safely be eliminated. While the commission believes that the primary grant should be made to public corporations under the State, there appears no objection to concessions being made by the grantee to private persons or corporations whereby they may be permitted to establish their own buildings, piers, and other facilities.

Should cases arise where private construction and ownership would appear to be the only or the best method of establishment, it would seem better to leave them to special legislation, in which the varying needs of each individual establishment could be specifically treated.

The commission is further of the opinion that the bill should not exclude any United States territory from the possibility of enjoying the privilege, under the safeguards outlined in the bill, and therefore believes that section 2 should be amended, as indicated hereinafter, so as to permit the establishment of free zones in the United States, its Territories, and dependencies. There would seemingly be the possibility of both national and local benefit from the establishment of free zones in the Territories of Hawaii, Alaska, and Porto Rico. The Canal Zone, being held under treaty tenure for specific canal purposes and doubtless incapable of securing public funds apart from those of the Federal Government, does not come within the scope of the bill.

With the amendments suggested herein, the commission indorses the bill as providing satisfactory conditions and safeguards, and commends it to the Congress for enactment.

As introduced in the Senate and House of Representatives.

A BILL

To provide for the establishment, operation, and maintenance of free zones in the ports of the United States, and for other purposes.

Be it enacted, etc.,

That when used in this Act—

The term "Secretary" means the Secretary of Commerce.

The term "public corporation" means a State, a legal subdivision thereof, or a municipality.

The term "private corporation" means a private corporation organized under the laws of the State within whose limits the free zone is located or is to be located, all the officers and directors of which are citizens of the United States.

The term "applicant" means a public or private corporation applying for the right to establish, operate, and maintain a free zone.

The term "grantee" means a public or private corporation to which the privilege of establishing, operating, and maintaining a free zone has been granted.

SEC. 2. That the Secretary of Commerce is hereby authorized, upon application as hereinafter provided, to grant, at his discretion, to public or private corporations, the privilege of establishing, operating, and maintaining free zones in or adjacent to ports of entry in the continental United States, except Alaska and the Canal Zone, for such periods as he may determine, not exceeding fifty years, subject to all the conditions and restrictions of this Act and of the rules and regulations made thereunder. Not more than one free zone shall be authorized in or adjacent to any port of entry. The Secretary shall give preference to the applications of public corporations.

The bill places the free-zone administration under the Secretary of Commerce, since the objects are primarily commercial. The establishment of free zones will not affect the customs revenue adversely. It is not a Treasury measure.

The purpose is to eliminate as far as may be hindrances and delays to vessels and cargo and to facilitate foreign commerce. The Department of Commerce, now charged with the duty of encouraging foreign trade and with the duty of the administration of our navigation laws, is properly given supervision over the establishment, operation, and maintenance of the free zones.

As noted in the introduction, the commission believes that the privilege offered by this general enabling act should be confined to public corporations. If, in any given case, the State or its subdivision should be unwilling or unable to take advantage of the act and private enterprise should seem needed, it would seem a proper subject for special legislation. But if, in the opinion of Congress, private corporations should be included among the possible concessionnaires, public corporations should be specifically preferred to them.

As will be easily understood, the measure of control in the Federal interest, if relating to private grants, must be necessarily broader and more complicated than in the case of grants to public corporations. The commission has, by placing the original sections in parallel columns with sections that eliminate private ownership, together with comment, endeavored to clarify the action of Congress in the event of its deciding to prefer one to the other.

Containing amendments suggested by United States Tariff Commission.

A BILL

To provide for the establishment, operation, and maintenance of free zones in ports of entry of the United States, and for other purposes.

Be it enacted, etc.,

That when used in this Act—

The term "Secretary" means the Secretary of Commerce.

The term "public corporation" means a State, a legal subdivision thereof, or a municipality.

The term "State" include Alaska, Hawaii, Porto Rico, and the Philippine Islands.

The term "applicant" means a public corporation applying for the right to establish, operate, and maintain a free zone.

The term "grantee" means a public corporation to which the privilege of establishing, operating, and maintaining a free zone has been granted.

SEC. 2. That the Secretary of Commerce is hereby authorized, upon application as hereinafter provided, to grant, at his discretion, to public corporations, the privilege of establishing, operating, and maintaining free zones in or adjacent to ports of entry in the continental United States (except the Canal Zone), and in Hawaii, Porto Rico, and the Philippine Islands, for such periods as he may determine, not exceeding fifty years, subject to all the conditions and restrictions of this Act and of the rules and regulations made thereunder. Not more than one free zone shall be authorized in or adjacent to any port of entry.

"Not more than one free zone shall be authorized in or adjacent to any port of entry." The reason for such a provision is that one of the main functions of a free zone is to assemble cargo, to facilitate the lading and unlading of vessels with dispatch and without the necessity of either moving the vessel from place to place or causing unnecessary handling of goods by lighters or other carriers. A division of free-zone territory in a port would scatter cargo and would add to the expense and difficulty of policing.

Section 2 in the bill as introduced limits the granting of the privilege to the continental United States, except Alaska and the Canal Zone, thereby excluding the island Territories of Hawaii and Porto Rico, the continental Territory of Alaska, and the island dependencies of the United States, of which the Philippine Islands are the most important. It is conceivable that there might be advantage in the establishment of free zones in both island dependencies and Territories, and also in the Territory of Alaska, where great circle sailing and the presence of coal, together with other natural resources suitable for export, might eventually create a demand for a large transshipment trade.

As stated in the introduction, the Canal Zone is under an entirely different legal tenure from the Territories and dependencies, and although there might prove special need and justification for the establishment there of a transshipment point, this should be a matter of subsequent and necessarily different treatment. Such an institution established in the Canal Zone would doubtless be under direct and complete Federal operation and control, and in all probability would necessarily be established by direct Federal appropriation.

The commission therefore recommends that original section 2, whether or not private corporations are to be allowed the privilege, be amended (page 2, line 12, S. 4153, line 14, H. R. 10892) so as to read (*except the Canal Zone*), and in *Hawaii, Porto Rico, and the Philippine Islands, for such periods as he, etc.*, as indicated in the right-hand column above.

SEC. 3. That in every free zone vessels or other carriers may land, lade and unlade, free from all customs supervision, control, duties, or charges, except as otherwise provided in this Act, and merchandise or articles of any description whatever, except such as are prohibited by law, may with like freedom be brought into or landed in a free zone, and there broken up, repacked, assembled, distributed, sorted, refined, graded, cleaned, manufactured, or otherwise manipulated, mixed with foreign or domestic merchandise, and exported therefrom in the original package or otherwise.

The territory embraced in a free zone shall, so far as customs duties and regulations are concerned, be exempt from the customs laws of the United States, except as otherwise provided in this Act; but when goods are sent from a free zone into any of the customs territory of the United States or its possessions, they shall be subject to all of the customs laws and regulations and, under regulations prescribed by the Secretary of the Treasury, pay the same duties as if imported from a foreign country.

Vessels entering or leaving a free zone shall not be exempted from the operation of any of the laws of the United States, except as otherwise provided in this Act, and vessels leaving a free zone and arriving at customs ports within the United States or its possessions shall be treated as if coming from foreign territory in so far as customs laws and regulations are concerned.

All vessels built or repaired within a free zone, unless the materials used in such building or repair are of domestic production, or have paid the duties, if any, required by law at the time of the use of such dutiable materials, shall be deemed to have been built or repaired in a foreign country.

SEC. 3. (Same as sec. 3 in bill as introduced.)

The legislation will in no way affect existing laws concerning navigation, postal service, public health, or immigration.

The last paragraph of section 3, pertaining to the building or repair of vessels in the free zone, was incorporated to conform to existing navigation laws, and, subject to the

payment of the duties in effect upon the materials used in building or repair, to allow vessels built in a free zone the same privileges as if they were built in the customs territory of the United States. Repairs to a vessel in a free zone will not change its status.

The proposed legislation in no wise interferes with any established policy as concerns ship registry. The zone secures no advantage over customs territory in the function of shipbuilding or repairing.

SEC. 4. That each application shall state in detail:

(1) The physical qualifications of the location where it is proposed to establish the free zone, showing (a) the land and water or land or water area, or land area alone if the application is for its establishment in or adjacent to an interior port; (b) its ease of isolation from customs territory; (c) the natural fitness of the area for a free zone; and (d) the possibilities of future expansion of the area of the zone;

(2) The facilities and appurtenances which it is proposed to provide;

(3) The time within which the applicant proposes to commence and complete the work of the construction of the zone and of such facilities and appurtenances;

(4) The residential population within the proposed location;

(5) The present and prospective foreign, domestic, and transshipment commerce which would make use of the zone;

(6) The financial ability of the applicant, and the method proposed to finance the undertaking; and

(7) Such other information as the Secretary may require to enable him to determine whether the applicant should receive a grant.

SEC. 4. (Same as sec. 4 in bill as introduced.)

It seems necessary to have the applications set forth certain essential facts to the Secretary, so that as full an understanding as possible of all of the conditions may be had by him prior to his assuming the task of investigation. The Secretary may require further information, and is not limited by the bill to the enumerated requirements.

SEC. 5. That if the Secretary finds that the proposed location is not suitable for a free zone, or that the facilities and appurtenances which it is proposed to provide are insufficient, or finds for any other reason that the application should not be granted, he may refuse to make the grant or he may permit the amendment of the application within such reasonable time and in such manner as in his judgment is proper.

SEC. 6. That the applicant, if a private corporation, shall file with its application a bond in such form and with such sureties as the Secretary may require, in an amount equal to not less than ten per centum of the total estimated cost of the undertaking, conditioned upon the completion, within the time specified in the application, of the construction of the free zone and its facilities and appurtenances.

If the application is amended, a substitute bond shall be filed covering the conditions specified in the amended application; and if in the opinion of the Secretary the estimate of the cost of the undertaking is too low, he shall require an additional bond.

SEC. 5. (Same as sec. 5 in bill as introduced.)

In the case of a private corporation the giving of such a bond will show good faith upon the part of the applicant, and at the same time protect the Government from speculative and ill-considered applications.

SEC. 7. That the Secretary is hereby authorized and directed to prescribe such rules and regulations as may be necessary, in his judgment, concerning the application, the grant of the privilege, the construction, operation, and maintenance of the free zone and its facilities and appurtenances, the length of time after the grant of the privilege within which the construction shall start and within which the work shall be completed and the free zone opened for business, and all other matters relating to the carrying out of this Act.

Nothing in such rules and regulations shall interfere with the laws, rules, or ordinances of the State, subdivision, or municipality in which the free zone is situated, nor with the protection of the revenues of the United States, except as authorized by the terms of this Act.

The Secretary shall cooperate with such State, subdivision, and municipality, in the exercise of their police, sanitary, and other powers in and in connection with the free zone. He shall also cooperate with the United States Customs Service, the Post Office Department, the Public Health Service, the Bureau of Immigration, and such other Federal agencies as have jurisdiction in the ports of the United States.

The clear intent of the bill is not to impinge unnecessarily upon the rights and duties of the State or its legal subdivision as concerns matters under the police power or the power of general taxation. The first sentence of the second paragraph, however, seems, to be needlessly restrictive.

It would appear that the safest provision would be a general one, making it mandatory on the Secretary to recognize and cooperate with the State and local requirements, and also to cooperate with such Federal agencies as have jurisdiction in United States ports.

SEC. 8. That for the purpose of facilitating the investigations of the Secretary and his work in the granting of the privilege, in the establishment, operation and maintenance of a free zone, and in the exercise of the administrative functions over the zone *, the President may direct the Executive Departments and other establishments of the Government to cooperate with the Secretary, and for such purpose each of the several departments and establishments are authorized, upon the direction of the President, to furnish to the Secretary such records, papers, and information in their possession as may be required by him, and temporarily to detail to the service of the Secretary such officers, experts, or engineers as may be necessary.

*"same" in H. R. 10892.

As other departments of the Federal Government have certain powers and duties in the harbors of the United States, it seems advisable to authorize the Secretary of Commerce to call for assistance by officials of such departments. In this connection he would doubtless utilize:

The Corps of Engineers of the Army as to harbor conditions.

The Post Office Department as to the Postal Service.

The Department of Labor as to the Immigration Service.

The Treasury Department as to the customs gate to the home country.

The enforcement of laws concerning navigation and seamen is lodged in the Department of Commerce.

SEC. 6. That the Secretary is hereby authorized and directed to prescribe such rules and regulations as may be necessary, in his judgment, concerning the application, the grant of the privilege, the construction, operation, and maintenance of the free zone and its facilities and appurtenances, the length of time after the grant of the privilege within which the construction shall start and within which the work shall be completed and the free zone opened for business, and all other matters relating to the carrying out of this Act.

The Secretary shall cooperate with the State, subdivision, and municipality in which the free zone is located, in the exercise of their police, sanitary, and other powers in and in connection with the free zone. He shall also cooperate with the United States Customs Service, the Post Office Department, the Public Health Service, the Bureau of Immigration, and such other Federal agencies as have jurisdiction in ports of entry described in section two.

SEC. 7. (Same as sec. 8 in bill as introduced.)

SEC. 9. That if the title to or right of user of the property to be acquired rests in the United States, a contract of lease may be entered into between the grantee of the privilege and the department or governmental establishment of the United States having direct charge and supervision of such property, for such a term of years and under such conditions and with such regulations as may be agreed upon between the grantee and such department or governmental establishment of the United States, with the approval of the Secretary.

Large areas of unused, available land, well suited to free-zone purposes, are owned in some of the ports by the United States. There will doubtless be cases requiring the filling of areas, recognized as navigable water, now under Federal jurisdiction.

SEC. 10. That the grantee is hereby granted the right to condemn the necessary area in land and water or land or water, and subsequently to condemn such additional area of land and water or land or water as from time to time the Secretary may deem necessary. Such condemnation shall be subject in all respects as nearly as may be to the obligations, restrictions, payments, and procedure, now or hereafter provided by the law of the State, in which the free zone is or is to be located, for the exercise of the right of eminent domain by such corporations. If the original area acquired is not sufficient for the purpose and the grantee neglects or refuses, after due notice by the Secretary, to acquire such additional area, the grant may be revoked by the Secretary, upon giving one year's notice, and the privilege granted to others, in the same manner as provided in section twenty.

The area included or to be included in the free zone shall be considered as used for a public utility and in appraising the value thereof for condemnation, or by agreement, there shall not be taken into consideration and eventual increases in value which may be predicated by reason of such area being included within the free zone, or any value in excess of the fair value as determined at the time of acquisition.

To the end that the grantee may secure the requisite area, and that the rights of all parties may be amply protected, it is necessary to grant the right of condemnation, both for the original establishment and for the acquisition of such additional area as from time to time, in the judgment of the Secretary of Commerce, may be found necessary.

In order to make clear the method to be pursued in such condemnation proceedings, the word "such" in line 24, page 7, S. 4153, line 23, page 7, H. R. 10892, should be stricken out and the word *railroad* substituted therefor. It is thought advisable to make this process of condemnation conform to the State rather than the Federal law, since the territory included in the free zone does not thereby become Federal property but remains under the jurisdiction of the State within which the zone is located.

SEC. 11. That each grantee shall provide and maintain in connection with the free zone—

(a) Adequate slips, docks, warehouses, loading, unloading, and mooring facilities;

(b) Adequate railroad connections with the surrounding territory and with all parts of the United States, so arranged as to permit of proper guarding and inspection of railroad cars for the protection of the revenue;

(c) Adequate facilities for coal or other fuel and for light and power;

(d) Adequate water and sewer mains;

(e) Adequate quarters and facilities for handling incoming and outgoing mail, and for United States, State, and municipal officers whose presence may be

SEC. 8. (Same as sec. 9 in bill as introduced.)

SEC. 9. That the grantee is hereby granted the right to condemn the necessary area in land and water or land or water, and subsequently to condemn such additional area of land and water or land or water as from time to time the Secretary may deem necessary. Such condemnation shall be subject in all respects as nearly as may be to the obligations, restrictions, payments, and procedure, now or hereafter provided by the law of the State, in which the free zone is or is to be located, for the exercise of the right of eminent domain by railroad corporations. If the original area acquired is not sufficient for the purpose and the grantee neglects or refuses, after due notice by the Secretary, to acquire such additional area, the grant may be revoked by the Secretary, upon giving one year's notice, and the privilege granted to others, in the same manner as provided in section seventeen.

The area included or to be included in the free zone shall be considered as used for a public utility and in appraising the value thereof for condemnation, or by agreement, there shall not be taken into consideration any eventual increases in value which may be predicated by reason of such area being included within the free zone, or any value in excess of the fair value as determined at the time of acquisition.

SEC. 10. That each grantee shall provide and maintain in connection with the free zone—

(a) Adequate slips, docks, warehouses, loading, unloading, and mooring facilities;

(b) Adequate railroad connections with the surrounding territory and with all parts of the United States, so arranged as to permit of proper guarding and inspection of railroad cars for the protection of the revenue;

(c) Adequate facilities for coal or other fuel and for light and power;

(d) Adequate water and sewer mains;

(e) Adequate quarters and facilities for handling incoming and outgoing mail, and for United States, State, and municipal officers whose presence may be

necessary within the zone. The charges for such quarters and facilities shall in no event be greater than charges for like space and buildings to other users.

With the consent of the Secretary, the grantee may permit private persons, firms, corporations, or associations to erect such buildings and other structures as will meet their particular requirements.

necessary within the zone. The charges for such quarters and facilities shall in no event be greater than charges for like space and buildings to other users.

With the consent of the Secretary and under reasonable and uniform regulations for like conditions and circumstances, the grantee may permit private persons, firms, corporations, or associations to erect such buildings and other structures as will meet their particular requirements.

The commission suggests that after the word "Secretary", in line 5 of page 9 of both Senate and House bills, the following clause be inserted:

and under reasonable and uniform regulations for like conditions and circumstances

This proposed amendment merely strengthens the requirement of uniform and reasonable treatment to those using the zone, whether under the original grantee or a concessionnaire of the grantee.

These facilities must be provided. In the main, there will be standardization of equipment and buildings within the zone, but in many cases it would be of advantage to permit construction especially adapted to the specific uses of a concessionnaire.

As examples, buildings for manufacturing, cleaning, or repacking should be specifically adapted to their purposes. Concessionnaires should be allowed latitude, under general restrictions, in the erection of buildings for exhibits, salesrooms, offices, etc.

SEC. 12. That each free zone is hereby declared to be a public utility, and the grantee shall afford to all who may apply therefor the use of the zone and its facilities and appurtenances, and uniform treatment in respect to all services rendered them by the grantee under like conditions and circumstances, subject to such treaties or commercial conventions as are now in force or may be hereafter made from time to time by the United States with foreign countries.

All rates and charges for all services within the free zone shall be fair and reasonable for the particular service rendered, and shall be subject to control and regulation by the Secretary, and may be changed by him upon six months' notice filed with the grantee, which shall be published in some newspaper within the limits of the State wherein the free zone is located and in such other manner as the Secretary may prescribe.

If the grantee refuses without reasonable cause to afford equal facilities and privileges at equal rates under like conditions and circumstances to all who may apply therefor, any person damaged by such refusal may recover in a suit against the grantee, in any court of competent jurisdiction, double the amount of damages resulting from such refusal.

SEC. 11. That each free zone is hereby declared to be a public utility, and the grantee shall afford to all who may apply therefor the use of the zone and its facilities and appurtenances, and uniform treatment in respect to all services rendered them by the grantee under like conditions and circumstances, subject to such treaties or commercial conventions as are now in force or may be hereafter made from time to time by the United States with foreign countries.

All rates and charges for all services or privileges within the free zone shall be fair and reasonable for the particular privilege granted or service rendered, and shall be subject to control and regulation by the Secretary, and may be changed by him upon six months' notice filed with the grantee, which shall be published in some newspaper within the limits of the State wherein the free zone is located and in such other manner as the Secretary may prescribe.

If the grantee refuses without reasonable cause to afford equal facilities, privileges, and services at equal rates under like conditions and circumstances to all who may apply therefor, any person damaged by such refusal may recover in a suit against the grantee, in any court of competent jurisdiction, double the amount of damages resulting from such refusal.

The amendments suggested by the commission to this section are:

Page 9, line 18, S. 4153, and line 17, H. R. 10892, after the word "services" insert the words *or privileges*.

Page 9, line 19, S. 4153, and line 18, H. R. 10892, after the word "particular" insert the words *privilege granted or*.

Page 10, line 2, in both bills, strike out the word "and", insert a comma in lieu thereof; and after the word "privileges" insert, *and services*.

These amendments are suggested for the reasons stated in connection with the suggested amendments to the preceding section.

The free zone being a public utility, all charges should be equal for like services, and should be under the supervision of the Secretary to the end that they be kept reasonable.

The provision as to treaties and conventions reserves the question of foreign relations.

As the function of the zone is to aid foreign commerce, it would seem the proper policy to encourage the entry of vessels and to provide against discrimination, unless such discrimination were exacted by treaty or by general legislation.

SEC. 13. That except under permits granted under regulations prescribed by the Secretary, no person shall be allowed to reside within the limits of the zone, except guards and officers of the grantee or of the United States or of the State or subdivision or municipality thereof in which the zone is located, whose presence at all times is essential for the safety and policing of the zone and the protection of the revenue; nor shall any person remain within the zone outside of ordinary business hours, unless he is actually working in connection with the handling of vessels, their cargoes, or the merchandise or articles stored or being handled, manufactured, or otherwise manipulated within the zone.

No retail trade shall be conducted within the zone, except the sale of ships' stores, and the sale of necessary food to employees and workmen for consumption within the zone. All foreign dutiable goods shall, before being so sold within the free zone, have paid the regular duty through the custom house. The Secretary of the Treasury shall appoint the necessary customs officers and guards to protect the revenue, whose salaries shall be reimbursed to the Treasury by the grantee semi-monthly.

SEC. 12. That except under permits granted under regulations prescribed by the Secretary, no person shall be allowed to reside within the limits of the zone, except guards and officers of the grantee or of the United States or of the State or subdivision or municipality thereof in which the zone is located, whose presence at all times is essential for the safety and policing of the zone and the protection of the revenue; nor shall any person remain within the zone outside of ordinary business hours, unless he is actually working in connection with the handling of vessels, their cargoes, or the merchandise or articles stored or being handled, manufactured, or otherwise manipulated within the zone.

No retail trade shall be conducted within the zone, except the sale of ships' stores, and the sale of necessary food to employees and workmen for consumption within the zone. All foreign dutiable goods shall, before being so sold or taken from the original package for use within the free zone, have paid the regular duty through the custom house: *Provided*, That nothing herein contained shall make dutiable any equipment or property of any ship used within the zone.

The Secretary of the Treasury shall appoint the necessary customs officers and guards to protect the revenue, whose salaries shall be reimbursed to the Treasury by the grantee semi-monthly.

The amendments suggested by the commission to this section are:

Page 10, line 23, S. 4153, and line 22, H. R. 10892, after the word "sold" insert the words *or taken from the original package for use*.

Page 10, line 25, S. 4153, and line 24, H. R. 10892, after the word "house" strike out the period, insert a colon in lieu thereof, and add the following clause:

Provided, That nothing herein contained shall make dutiable any equipment or property of any ship used within the zone.

The intent of the bill as drafted, and in accord with the amendments suggested by the commission, is that there should be no privilege granted within the zone as concerns imported goods not equally shared by customs territory. This goes to the extent of preventing the use of imported equipment, foodstuffs, ships' stores, etc., without payment of duty.

It is necessary, however, that it be clearly recognized that the actual equipment and property of vessels used during their stay in the zone should be exempt from customs duties. The last amendment above mentioned is therefore suggested to that end.

In the port of Copenhagen the materials used in the buildings and equipment of the zone are exempt from customs duties as long as they remain within the zone. This has proven satisfactory there, but the commission has received no complaint against the provision proposed in the bills under discussion.

For the effective protection of the revenue, no persons except those whose employment specifically so requires should reside in the zone, nor should imported goods be consumed therein unless duties are paid. The zone should not in any way be considered as "free-trade" territory.

The question of who should pay the expense of customs administration for dutiable goods going through the customs gate to the home country is debatable. If this customs gate represents merely an added expense, such expense should be met by the zone.

If, on the other hand, the zone should create, by its stimulus to foreign trade in general, a large increase of customs revenue, the Treasury Department might properly be called upon for the additional cost. The free port at Hamburg pays such customs expenses. At the free port of Copenhagen the service is contributed by the Danish Government.

SEC. 14. That the form and manner of keeping the accounts of each free zone shall be prescribed by the Secretary.

Each grantee shall make to the Secretary annually, and at such other times as he may prescribe, reports containing a full statement of all the operations of the zone, including all information which the Secretary may require, and including a detailed statement of receipts and expenditures.

The Secretary shall make a report to Congress on the first day of each regular session, containing a summary of the operations and fiscal conditions of each free zone, and transmit therewith copies of the annual report of each grantee.

SEC. 13. (Same as sec. 14 in bill as introduced.)

To facilitate the supervision of the accounts by the Secretary, the method of accounting must be standardized.

The national service to be rendered is one of great public concern and interest, and there is nothing in the nature of the enterprise that should not be a matter of common knowledge.

SEC. 15. That if the grantee is a private corporation, the issuance of evidence of capital investment shall be subject to the approval of the Secretary, and the amount issued shall not be in excess of the actual amount necessary for the acquisition of the location of the zone and for the furnishing of the facilities and appurtenances required for its establishment, operation, and maintenance.

Each bond and other obligation of such grantee shall contain a provision that it shall be subject to call (at such price, not exceeding one hundred and five per centum of the par value thereof as may be specified in such bond or obligation, with the approval of the Secretary) at the expiration of five years after the issue thereof, or at the expiration of each five years thereafter.

The provisions contained in this section are deemed necessary so that, in case a public corporation should wish to take over the project, an exorbitant price could not be demanded by reason of inflated securities. The five-year periods are thought to be just and fair.

SEC. 16. That if the grantee is a private corporation any surplus remaining after the payment of operating expenses, interest on its bonds or other obligations, and the setting aside of such amount for depreciation as the Secretary may from time to time prescribe may be used for the payment of dividends upon the stock of the corporation at such rate as the Secretary may prescribe at the beginning of each ten year period of the term of the grant.

Any surplus remaining after the payment of such dividends shall be used in the purchase and cancella-

tion of the bonds and other obligations of the corporation. Such purchase shall be made at such prices as the Secretary may prescribe (not exceeding one hundred and five percentum of the par value thereof), except that at the expiration of each five-year period after the issue thereof the grantee shall, at the discretion of the Secretary, use any such surplus then existing for the call of such amount of its bonds or other obligations as the Secretary may prescribe at the prices specified in such bonds or obligations as provided in section fifteen.

On account of the inability to forecast conditions of the future, it seems advisable to leave interest and dividend rates to the discretion of the Secretary. In the fixing of charges, without possibility of an accurate forecast of earnings from services to be rendered, preliminary rates would naturally be placed at such figures as would be expected not only to meet fixed charges, dividends, and depreciation, but also to yield a small surplus, such surplus, if earned, to be applied as indicated.

SEC. 17. That the grantee shall not sell, transfer, set over, assign or mortgage the privilege, or any portion thereof, for all or any portion of the term for which it is granted, except with the approval of the Secretary: *Provided*, That this provision, in case the grantee is a private corporation, shall not prevent the sale and transfer of stock in such corporation.

SEC. 18. That upon the expiration of the period of the grant, the Secretary may, at his discretion, make a new grant (giving preference to the corporation enjoying the grant at the time of such expiration) in the same manner and under the same conditions, restrictions, rules, and regulations as are provided in this Act for the application for and grant of the privilege, and the grantee shall likewise be subject to all the conditions and restrictions of this Act and of the rules and regulations prescribed thereunder.

If the bill shall permit grants to private corporations or individuals, it should require that stock should not be owned by others than citizens of the United States, and that stock shall be registered with the Secretary, and all transfers made only with his approval.

The following amendment to original section 17 is therefore suggested:

Page 13, line 7, S. 4153 and H. R. 10892, change the period at end of line to a colon, and add the following:

Provided further, That all sales and transfers of such stock shall be subject to the approval and permission of the Secretary, and shall be registered with and by him under such rules and regulations as he may deem necessary: And provided further, That no stock so issued

SEC. 14. That the grantee shall not sell, transfer, set over, assign or mortgage the privilege, or any portion thereof, for all or any portion of the term for which it is granted, except with the approval of the Secretary: *Provided*, That this provision shall not prevent the issuance, sale, and transfer of stock by the grantee for the establishment, operation, and maintenance of the zone. All sales and transfers of such stock shall be subject to the approval and permission of the Secretary, and shall be registered with and by him under such rules and regulations as he may deem necessary. No stock so issued shall at any time be given, sold, or transferred to any person not a citizen of the United States.

SEC. 15. (Same as sec. 18 in bill as introduced.)

The amendments suggested by the commission to section 17 are:

Page 13, line 5, S. 4153 and H. R. 10892, strike out the comma after the word "provision" and the rest of the line.

Page 13, line 6, S. 4153 and H. R. 10892, strike out the word "corporation" and the following comma; after the word "the" insert the word *issuance*, and insert a comma after the word "sale".

Page 13, line 7, S. 4153 and H. R. 10892, strike out the whole line and insert the following:

by the grantee for the establishment, operation, and maintenance of the zone. All sales and transfers of such stock shall be subject to the approval and permission of the Secretary, and shall be registered with and by him under such rules and regulations as he may deem neces-

shall at any time be given, sold, or transferred to any person not a citizen of the United States.

sary. No stock so issued shall at any time be given, sold, or transferred to any person not a citizen of the United States.

These amendments are suggested to the end of preventing any possible nullification of the purpose of the zone through stock control by persons hostile to the policy and purpose of its establishment and operation.

The need of reasonable safeguards as provided in sections 17 and 18 is obvious. The Supplement to Commerce Reports (No. 15-D) for September 2, 1915, contains the following passage concerning the proposed establishment of a free port at Cadiz, Spain:

At the close of December, 1914, the Government presented to the Spanish Parliament a bill, which there is every reason to believe will be accepted in its main lines at least, empowering the Government to concede the establishment of free zones in such Spanish ports as may be suitable to a company expressly organized for this purpose or a board of harbor works, to a chamber of commerce or of trade, or to a municipality directly interested in such an undertaking. * * * The body obtaining the concession can not transfer it without permission of the Government. In no case will concessions of any kind be made within the zone except to Spaniards or to Spanish companies of which the majority of the board of directors are Spanish citizens.

Restrictive provisions similar to those mentioned in the above quotation are contained in the law authorizing the creation and operation of the free port at Copenhagen (see Appendix, p. 77) and in a bill proposing the establishment of free zones in France submitted to the French Chamber of Deputies in 1914 (see Appendix, p. 92).

SEC. 19. That the grant may be surrendered by the grantee at any time after the expiration of ten years after the completion and opening of the free zone for business, upon one year's notice in writing to the Secretary and under such rules and regulations as the Secretary may prescribe. In the event of such surrender the United States shall incur no liability nor shall it pay any remuneration to such grantee in any manner whatever.

SEC. 20. That if a grant is so surrendered, or if a grant is forfeited under section twenty-six the Secretary may proceed to grant the privilege to a public or private corporation, the public corporation having the preference, in the same manner and under the same conditions, restrictions, rules, and regulations as are provided in this Act for the application for and grant of the privilege, and the grantee shall likewise be subject to all the conditions and restrictions of this Act and of the rules and regulations prescribed thereunder.

SEC. 16. (Same as sec. 19 in bill as introduced.)

SEC. 17. That if a grant is so surrendered, or if a grant is forfeited under section twenty, the Secretary may proceed to grant the privilege to a public corporation in the same manner and under the same conditions, restrictions, rules, and regulations as are provided in this Act for the application for and grant of the privilege, and the grantee shall likewise be subject to all the conditions and restrictions of this Act and of the rules and regulations prescribed thereunder.

It would seem impossible to hold the grantee longer than for ten years to a contract that might conceivably be carried on at a loss.

If the privilege were surrendered, the equipment would remain in the possession of the grantee. In that event the Government might condemn and take over the property or permit another corporation to take it over, in which event the new grantee would have the right to condemn the property. The Government might grant a new privilege in a different location in or adjacent to the port of location. With or without a new grant in a new location, the Government may, at its option, leave existing improvements with the original grantee, to be operated as in the case of other territory within the customs jurisdiction.

SEC. 21. That if the grantee is a private corporation the United States or the State or subdivision or municipality thereof, within which the free zone is located shall, in the order named, have the right to take over the zone, together with its buildings, equipment, facilities, and appurtenances, at any time after the expiration of five years from the completion of the zone and the opening thereof for business, upon giving one year's notice of its intention to do so, and the

payment, within such year, of a sum equal to not less than one hundred and ten nor more than one hundred and fifteen per centum (or, if such taking occurs after twenty-five years of the term have expired, of a sum equal to one hundred per centum) of the par value of the evidences of capital investment issued as provided for in this Act and outstanding at the time of such taking over, less an amount equal to the sum which at such time is or should be, under the order of the Secretary, set aside for depreciation, and less a proper allowance (to be fixed by the Secretary in case of disagreement) if the zone and its buildings, equipment, facilities, and appurtenances have not been kept in good order and repair, ordinary wear and tear excepted.

The privilege of operating and maintaining any free zone so taken over shall automatically pass to and be vested in the United States or in such public corporation, as the case may be, for the remainder of the term for which granted, but such privilege shall not be considered as an element of value in such transaction.

While granting assurance that the property would not be taken from private investors except at a price protecting a reasonable profit, provision is made for possible transfer from what may be considered less desirable private ownership to more desirable public ownership without the possibility of incurring inflated values.

SEC. 22. That if any free zone is so taken over by the United States, it shall be operated and maintained under the direction of the Secretary.

If so taken over by a public corporation, it shall be operated and maintained in the same manner and subject to the same conditions, restrictions, rules, and regulations as if the grant had been made to such public corporation in the first instance.

Inasmuch as the issuing of all securities representing capital investment must be by the consent and under the supervision of the Secretary, it was thought equitable to place the value at from 110 to 115, with provision for depreciation and surplus. In this way the investment is made more stable and the security holders will at all times know that, if taken over, their investment will not show a loss.

SEC. 23. That if a public corporation has received a grant, or if the United States or a public corporation has taken over a free zone under section twenty-one, and it appears to the Secretary that it is to the manifest interest of the public or of the United States or of the State or sub-division or municipality thereof in which such zone is located, that the zone should be operated and maintained by a private corporation, then the Secretary, on behalf of the United States (or, if the grantee is a public corporation, on behalf of such corporation and with its consent), shall, after due notice by publication of the facts for ninety days in some newspaper published within the limits of the State wherein the zone is located, upon application in such form and with such conditions as he requires, grant the privilege of operating and maintaining such zone for the remainder of the term and sell such zone, together with its buildings, equipment, facilities, and

appurtenances, to a private corporation, upon such terms and conditions as he decides are equitable and reasonable.

If the zone has been so taken over by the United States and it appears that a public corporation is desirous of operating and maintaining such zone, the application of such public corporation shall have the preference over the grant to a private corporation provided for in the preceding paragraph.

The operation and maintenance of the zone under such grant as is provided for in this section shall be conducted in the same manner and subject to the same conditions, restrictions, rules, and regulations as if the grant had been made to the grantee in the first instance.

SEC. 24. That in the event of war or other national emergency the President may take over, occupy, and use any part or all of any free zone, or its facilities or appurtenances, for such time as the exigencies of the case demand. The damage suffered by the grantee by reason of such taking, occupation, and use shall be determined by agreement between the grantee and the President. If no such agreement is made, the President may pay to the grantee an amount equal to seventy-five per centum of the estimated amount which would be due as just compensation, and the grantee may bring suit in the Court of Claims for an amount which, when added to the sum received from the President, would constitute just compensation for the property taken.

SEC. 25. That in case of a violation of this Act, or any regulation of the Secretary under this Act, by the grantee, such grantee, if a private corporation, shall be fined not more than \$1,000. If the grantee is a public corporation, any officer, agent, or employee thereof responsible for or permitting any such violation shall be subject to a like fine. Each day during which a violation continues shall constitute a separate offense.

SEC. 26. That if the Secretary finds that any grantee, by reason of repeated violations of this Act or of the regulations of the Secretary under this Act, is failing to maintain and operate the zone in such manner as adequately to serve the public, he may revoke the grant.

SEC. 18. That in the event of war or other national emergency the President may take over, occupy, and use any part or all of any free zone, or its facilities or appurtenances, for such time as the exigencies of the case demand. The damage suffered by the grantee by reason of such taking, occupation, and use shall be determined by agreement between the grantee and the President. If no such agreement is made, the President may pay to the grantee an amount equal to seventy-five per centum of the amount estimated by him to be due as just compensation, and the grantee may bring suit in the Court of Claims for an amount which, if any, when added to the sum received from the President, would constitute just compensation for the property taken.

SEC. 19. That in case of a violation of this Act, or any regulation of the Secretary under this Act, by the grantee, any officer, agent, or employee thereof responsible for or permitting any such violation shall be subject to a fine of not more than \$1,000. Each day during which a violation continues shall constitute a separate offense.

SEC. 20. (Same as sec. 26 in bill as introduced.)

The amendments suggested by the commission to section 25 are:

Page 17, line 7, S. 4153 and H. R. 10892, transpose the words "estimated amount" to read "amount estimated," and insert after the word "estimated" the words *by him*.

Page 17, line 8, S. 4153 and H. R. 10892, strike out the words "which would" and insert in lieu thereof the word *to*.

Page 17, line 9, S. 4153 and H. R. 10892, insert after the comma at the end of the line the words *if any*,

Page 17, lines 14 and 15, S. 4153 and H. R. 10892, strike out both lines except word "any" at end of line 15.

Page 17, line 17, S. 4153 and H. R. 10892, strike out the word "like," and after the word "fine" insert the following: *of not more than \$1,000*.

The right of the Secretary to revoke the grant of the privilege for repeated violations of the law or regulations might at first glance appear drastic, but when it is considered that the privilege is, by the terms of the bill (see sec. 2), a monopoly and that the grantee by a nonobservance of the laws and regulations may nullify the policy in any particular port, it becomes apparent that severe penalties may properly be required.

APPENDIX.

TABLE OF CONTENTS.

	Page.
Report of committee of New York Chamber of Commerce	35
Resolution adopted by Philadelphia Chamber of Commerce	36
Report of committee of Philadelphia Board of Trade	36
Resolutions adopted by the Philadelphia Bourse	36
Resolution adopted by the foreign trade bureau of the New Orleans Association of Commerce	37
Resolution adopted by the Commission Council of New Orleans	37
Resolutions adopted by board of directors of New Orleans Cotton Exchange	37
Report of committee of Galveston Commercial Association	38
Report to United States Tariff Commission by committee of San Francisco Chamber of Commerce	38
Resolutions adopted by board of directors of San Francisco Chamber of Commerce	48
Extracts from a hearing held by United States Tariff Commission in New York	49
Extracts from a hearing held by United States Tariff Commission in Philadelphia	57
Interview between Hon. William Kent and Capt. V. Lassen	69
Letter of George R. Meyercord	73
Letter of Charles D. Byles	74
Address of H. R. Geddes, of Dover, England	74
Acts of Congress granting privileges similar to free-zone practice	76
Law for establishment of a free port at Copenhagen	77
Charter of Copenhagen Free Port Joint Stock Co.	79
Rules for the administration of the free port of Copenhagen	83
Law providing for a commission to select a site for a free port at Lisbon, Portugal	85
Royal decrees providing for establishment of free ports at Cadiz, Barcelona, and Bilbao, Spain	86
Bill providing for the establishment of free zones in French maritime ports, introduced in the French Chamber of Deputies July 10, 1914, with explanatory letter	90
92621—19—3	33

Report of Committee of New York Chamber of Commerce.

At the regular monthly meeting of the Chamber of Commerce of the State of New York, held January 3, 1918, the following report, presented by its committee on foreign commerce and the revenue laws, was unanimously adopted:

REPORT ON THE ESTABLISHMENT OF A FREE PORT AT NEW YORK.

To the Chamber of Commerce:

Your committee on foreign commerce and the revenue laws has had under consideration the proposition to establish at New York a free port or free zone. During December the United States Tariff Commission held hearings in the city, at which arguments were made for and against this proposition. These hearings were attended by several of your committee; the subject also has been given careful study by all the members of your committee, both individually and in conference.

The proposal to establish free ports in America is a part of the systematic development of our country which, it is obvious on every hand, is now for the first time to receive scientific thought and treatment.

In the United States no free ports, or more accurately, free zones in ports, have ever been established. The oldest example abroad of such a port is at Hamburg, Germany, where a large area has been set aside, into which foreign materials may be imported free of duty. In this area these materials may be stored, assembled, repacked, manipulated, or manufactured without customhouse inspection, charge, or interference. When it suits the convenience or business plans of the owner of these materials, either he may reload them aboard ship and reexport them without payment of duties and without customhouse interference or he may send them out of the free zone, which is an inclosed and guarded area, and pass them through the customhouse to their destination in the domestic market. The owner of the goods when he takes them from the free zone into the nonfree zone must, of course, subject them to the usual inspection and customs charges as if directly imported.

It is, therefore, obvious that the establishment of a free port has no bearing whatsoever upon the political question of free trade or protection. The creation of a free zone in a port is designed to facilitate foreign trade, while at the same time protecting the customs revenues of the home country.

Under the present system in the United States bonded warehouses have been established into which imported goods may enter in bond and from which they may be withdrawn for consumption or for reexportation to foreign markets.

The bonded warehouse system is cumbersome and very unsatisfactory in a high-protection country seeking to do a large international trade. The advantages over this system to be derived by the establishment of a free zone in our port would be numerous. Among them may be mentioned the following:

(1) A free zone would facilitate the removal of imports from piers and from vessels, and thus relieve congestion so that ships would arrive and depart more quickly. For instance, the loss of time in weighing imports, in selecting one-tenth part for the appraisers' stores, as is required in some cases, and in meeting the restrictions which may be imposed on transfer of imports from vessels by lighter, would all be eliminated on goods landed at the free zone. When a ship ties up in a free port it is possible to unload the cargo without any customs inspection.

(2) A free zone would make it possible to avoid the complications of bonding and drawbacks in the case of reexported goods. Under the present system, for instance, where imported goods are merely repacked in this country the importer goes through the elaborate details of paying duties and then is subjected to further red tape, expense, and loss in the process of getting the duties paid refunded in the shape of drawbacks.

(3) The free zone would give the owner at all times control of his merchandise, which is an important advantage over the bonded warehouse system. The owner has free access to his goods at all times. Machinery may be assembled here. Manufacturing may be carried on, where domestic and foreign materials are combined, or otherwise. Show rooms may be equipped and goods sold to buyers therein. Goods may be imported in bulk, split up, reassorted, or mixed up with other goods, and prepared for shipment as demand may arise in this country or abroad.

(4) The free zone has financial advantages in that it would release capital now tied up by our customs regulations. Also, the more rapid movement of ships and cargo makes a more rapid turnover possible and a corresponding decrease in capital requirements.

(5) The creation of a free zone involves the building of large, specialized terminals with all modern appliances for loading and unloading, transshipping and warehousing, and, in some ports abroad, for light manufacturing. Furthermore, dry docks, repairing and shipbuilding facilities are provided. This all cuts down materially terminal costs, which usually constitute about 60 per cent of the cost of ocean transportation.

(6) The establishment of free ports in this country will materially assist the United States to meet in foreign markets the competition for trade from such free ports in Europe, and will be a great aid to our foreign and shipping trades in the struggle for international business at the close of the war.

In view of the advantages accruing from free ports, and in view of the necessity that every efficient and economic facility be provided for increasing our international trade and traffic, so that our immense mercantile marine and shipping industry now being built up may find employment in peace times, your committee is moved to recommend the following:

Resolved, That the Chamber of Commerce of the State of New York records its belief in the wisdom and necessity of establishing free zones at New York and at such other ports as may be deemed advisable, the location, area, and equipment of these zones to be

determined after investigation by the proper authorities competent to pass on such matters; and be it further

Resolved, That copies of the foregoing report and resolutions be sent to the members of the United States Tariff Commission and to the Members of Congress.

HENRY A. CAESAR, *Chairman*.
 WILLIAM E. PECK,
 CHARLES A. SCHIEREN,
 LINCOLN CROMWELL,
 JOHN V. JEWELL,
 W. TYRRE STEVENS,
 I. OSGOOD CARLETON,
Committee on Foreign Commerce
and the Revenue Laws.
 EUGENIUS H. OUTERBRIDGE,
President.

Attest:

CHARLES T. GWYNNE, *Secretary*.
 NEW YORK, January 4, 1918.

Resolution Adopted April 2, 1918, by the Philadelphia Chamber of Commerce.

(Later presented to Chamber of Commerce of the United States at its annual convention at Chicago April 10, 11, and 12, 1918, and referred to board of directors of that chamber, with request that they give it early and serious consideration.)

Whereas the United States is building a large merchant marine; and

Whereas when the war is ended we believe that the American people will demand that this great tonnage shall be retained to build up and increase our foreign commerce; and

Whereas in our opinion it is prudent in time of war to prepare for peace conditions after the war; and

Whereas we believe that the establishment, operation, and maintenance of free zones in the ports of the United States will be of far-reaching benefit to and for the foreign and domestic commerce of our country; Therefore be it

Resolved, That the Chamber of Commerce of the United States petition the Congress of the United States to enact at this session, legislation for the establishment, operation, and maintenance of free zones in the ports of the United States.

Report of Committee of Philadelphia Board of Trade.

PHILADELPHIA, March 25, 1918.

To the President and Executive Council of the Philadelphia Board of Trade.

GENTLEMEN: Your committee on foreign and coastwise commerce, to which at the last meeting of the Philadelphia Board of Trade, held March 18, was referred the question of the establishment of free zones in the ports of the United States, begs to report that its representatives were present at the hearings, which took place in Philadelphia, at the rooms of the board of trade, January 22 and 23, 1918, before Hon. William Kent and Edward P. Costigan, Esq., of the United States Tariff Commission, at which there appeared a very full representation of the commercial and business interests of the city.

The opinions, as there expressed, were practically favorable to the establishment of such free zones as being in the best interests of the commerce of the country, and it was earnestly contended that the port of Philadelphia was ideally equipped for the establishment of such a free zone, should the Government authorize this departure in the business methods of the customhouse service.

The main arguments offered in favor of the Government authorizing such free zones may be summarized, as follows:

I. The great saving of time and expense on the part of the Government in the handling of the imports upon their arrival in free zones and avoiding at that time the now necessary customs inspections.

II. The avoidance of all complications attending the bonding and securing of drawbacks in case of the desire to reexport the arriving merchandise.

III. The control by the owners of the goods stored in free zones, furnishing an additional facility for the profitable transaction of business, especially as to rehandling, packing, mixing, etc.

IV. The advantage to manufacturers in the possibility of establishing their factories in the free zones, particularly where they are dependent upon dutiable raw materials, thus avoiding the troublesome conditions surrounding the question of drawbacks on their exported products.

V. In the competition for the international commerce of the world, the establishment of free zones will, it is believed, greatly aid the United States in securing its fair share of this trade.

VI. The example of Hamburg seems to prove the advantages of a free zone, which doubtless will be dwelt upon in any report made by the Tariff Commission and should prove a convincing argument in securing congressional sanction for the necessary change in the customs laws authorizing the establishment of such free zones.

Under the authority granted, the committee on foreign and coastwise commerce of the Philadelphia Board of Trade submits the foregoing as briefly representing the views of the board of trade in favor of the establishment of free zones, together with the following resolution:

Resolved, That the Philadelphia Board of Trade, from the evidence submitted at the hearing in Philadelphia before representatives of the United States Tariff Commission, believes that the establishment of free zones in the ports of the United States will largely increase the facilities for the conduct of the foreign trade of the country.

Resolutions Adopted by the Philadelphia Bourse.

(An organization composed of over 2,500 business men, firms, and corporations having as one of its objects the improvement of the city, State and Nation, acting through its board of directors, at a meeting held April 20, 1918.)

To the honorable the Senate and House of Representatives in Congress assembled:

Whereas the consensus of opinion of that portion of the business public which is engaged in importing and reexporting the products of foreign countries, as shown by the testimony given at the several hearings on the subject, seems to favor the establishment of free zones in the ports of the United States; and

Whereas, at the hearing held in Philadelphia January 22 and 23, 1918, by members of the Tariff Commission the opinions expressed were unanimously in favor of such free zone in the port of Philadelphia: and

Whereas the special committee of this board having the subject under consideration has expressed itself in favor of the general idea as well as its application to the port of Philadelphia for many reasons, including the following:

1. The facility of receiving, rehandling, repacking, and reshipping imported goods without the loss of time and the expense of the present obligatory customs inspection.

2. The elimination of the necessity for application for drawbacks on reexported foreign merchandise with all the attendant annoyances, and as well the necessity of bonding such goods as are to remain in storage pending removal.

3. The opportunity for the establishment of factories within the zone for the manufacture of goods destined for export and into which imported raw materials enter largely, avoiding all annoyance with respect to bonded factories and drawbacks.

4. The upbuilding of a port or ports for the free exchange or transshipment of cargoes or part cargoes, thus increasing the tonnage of the port or ports having such zone, adding materially to the business of the port in supplying the additional ships, their repairs, etc.; adding generally to the shipping of the Nation and finding a paying outlet for the vast tonnage under our flag after the successful termination of the war.

And whereas there has been introduced in Congress a bill (H. R. 10892) "to provide for the establishment, operation and maintenance of free zones in the ports of the United States and for other purposes": Therefore,

Resolved, That the Philadelphia Bourse notes with satisfaction the effort being made toward the establishment of free zones in the ports of the United States, believing such system would be a most valuable adjunct in the promotion of the foreign trade of the country, and it hopes for the early consideration and enactment into law of the principles contained in bill H. R. 10892.

PHILADELPHIA BOURSE,
[SEAL.] By EMIL P. ALBRECHT,
President.

True copy. Attest:
W. R. TUCKER,
Acting Secretary.

Resolution Adopted March 28, 1918, by the Committee of Management of the Foreign Trade Bureau of the New Orleans Association of Commerce.

Whereas there has been introduced in Congress by the Hon. J. Y. Sanders, Congressman from Louisiana, a bill which seeks to create within the United States free ports or free zones in which areas there shall be no custom regulations or interferences whatever in the free handling in or out of merchandise manufactured or manufacturing; in which area merchandise may be received from foreign countries, reshipped, repacked, or combined with domestic goods and shipped out of this country; where partly manufactured goods may be brought to a completed state;

which condition of import and export would create many opportunities for the commerce of our country, giving employment to labor and to capital and putting our foreign commerce on an equal basis with foreign competitions; in which free flow of commerce and manner of handling imports and exports the commerce of our port and this whole southern and central section of the United States would be greatly facilitated: Therefore be it

Resolved, That we, the foreign trade bureau of the New Orleans Association of Commerce, recognize the great value to the condition of our foreign commerce which this bill would bring about, heartily indorse this bill as presented by J. Y. Sanders, and will cooperate with any assistance necessary to have same enacted, and that a copy of this resolution be forwarded to the United States Tariff Commission.

Resolution Adopted by Commission Council of the City of New Orleans April 2, 1918.

By Mr. GLENNY:

Whereas there has been introduced in Congress by Hon. J. Y. Sanders, Congressman from Louisiana, a bill which seeks to create within the United States free ports or free zones in which areas there shall be no custom regulations or interferences whatever in the free handling in or out of merchandise manufactured or manufacturing; in which area merchandise may be received from foreign countries, reshipped, repacked, or combined with domestic goods and shipped out of this country; where partly manufactured goods may be brought to a complete state, which condition of import and export would create many opportunities for the commerce of our country, giving employment to labor and to capital and putting our foreign commerce on an equal basis with foreign competitions, in which free flow of commerce and manner of handling imports and exports the commerce of our port and this whole southern and central section of the United States would be greatly facilitated; Therefore be it

Resolved, That we, the commission council of the city of New Orleans, recognizing the great value to the condition of our foreign commerce which this bill would bring about, heartily indorse this bill by Mr. Sanders and will cooperate with any assistance necessary to have same enacted.

Be it further resolved, That a copy of these resolutions be forwarded to the United States Tariff Commission.

Adopted.

Resolutions Adopted by the Board of Directors of the New Orleans Cotton Exchange March 18, 1918.

Whereas we are firmly convinced that the establishment of a system of free ports in the United States will prove a great aid to our foreign and shipping trades for international business; and

Whereas such a system will contribute greatly toward enabling us to find employment in peace times for our immense mercantile marine and shipping industry now being built;

Resolved, That the New Orleans Cotton Exchange strongly recommends the adoption of legislation by the United States Congress establishing free zones at New

Orleans, New York, and such other ports as may be deemed advisable. The location of such zones to be determined upon investigation by proper authorities competent to pass on such matters.

Resolved further, That copies of the foregoing preamble and resolutions be sent to the United States Tariff Commission and the Senators and Members of Congress from this State.

Report of Committee of Galveston Commercial Association.

GALVESTON, TEX., Mar. 30, 1918.

To the officers and directors of the Galveston Commercial Association.

GENTLEMEN: Your special committee, appointed for the purpose of examining into the matter of establishing free port areas or zones in the different ports of the United States, beg leave to submit the following report:

There is one question which naturally arises in the minds of the farsighted business men of America and that is, What preparation are we making looking to the promotion of better and freer international commercial relations after the conclusion of the present war? At this time there is no satisfactory answer to that question.

In our opinion the industrial competition which will follow the ending of the present war is a matter that should now receive the most careful consideration at the hands of Congress and others responsible for advancing the best interests of this Nation and our people. It might be well said, "In the time of war, prepare for peace."

The establishing of free port areas at selected American seaports is one of the most important steps, requiring immediate consideration. In supplying and meeting the great needs of devastated Europe, the United States will occupy a commanding position. It will require many years for Germany to overcome the bitter hatred that she so well merits at the hands of civilized nations, and friendly America, who entered the world conflict from only the loftiest motives, will no doubt be looked to with favor in a commercial way for a very long time.

Free port areas are designated zones with a channel frontage at deep-water ports, in which shipbuilding, ship repairing, warehouses, and manufacturing establishments are located. Materials of all kinds imported from foreign countries would be accepted at free ports without the payment of duties. These materials, as a whole or in part, could be manufactured into finished products and these products, after furnishing employment to American labor, could be exported to South American or any other countries where duties, if any, could be paid by the purchaser. In this free port area goods and materials may be stored, assembled, repacked, or used in manufacturing without previous payment of customhouse charge; also without customs interference.

Free port areas are also great markets where buyers could go and make their selections and pay the duty at the time of delivery instead of making selections from samples or sending buyers to Europe. In these areas the goods are always accessible to the owner and subject to inspection. Rough rice could be im-

ported from Japan, furnishing inbound cargoes at low freight rates for ships calling at our ports for cotton. This rice could be polished and packed and withdrawn gradually from the free port area, paying duty on quantity withdrawn instead of paying duty on entire cargo on arrival.

The free port zones of other countries are largely ship-repairing plants and trading centers rather than manufacturing centers. In the United States they would tend toward the upbuilding of our merchant marine and aid in bringing to America raw materials and goods of foreign nations either for reexport or entrance with the minimum of delay and difficulties and none of the unsatisfactory red-tape features connected with bonded warehouses. These zones simplify the conduct of import business and they also admit of the rapid unloading of ships, thus expediting their arrival and departure.

In view of the facts stated, we submit for adoption the following resolution:

Whereas the port of Galveston being located on deep water, having thoroughly modern and up-to-date wharfage and terminal facilities, with terminal railroads contiguous to said wharfage facilities; and

Whereas the geographical location of the port of Galveston is such as to make it the logical concentration and distribution center for South American countries, European countries, and the far eastern Pacific Ocean countries, via the Panama Canal: Now therefore be it

Resolved by the board of directors and advisory board of the Galveston Commercial Association, after a thorough study and consideration, That it recommends to the United States Tariff Commission the advisability and necessity for the establishment of free port areas or zones at the port of Galveston, and at such other ports of the United States as in its judgment may be deemed advisable; said locations, area, and equipment of said free port area or zones to be determined after investigation by the proper authorities vested to pass upon such matters; and be it

Further resolved, That copies of these resolutions be forwarded to the members of the United States Tariff Commission, and to the Texas Senators and Congressmen.

Report to the United States Tariff Commission by the Committee on Free Port Appointed by the San Francisco Chamber of Commerce.

[San Francisco Chamber of Commerce, committee on free port, 1004 Merchants' Exchange Building, San Francisco.]

FEBRUARY 28, 1918.

HON. WILLIAM KENT,
United States Tariff Commission,
Washington, D. C.

DEAR SIR: The committee appointed by the San Francisco Chamber of Commerce to take up the question of the advisability of recommending to Congress the establishment of free ports, or zones, has completed its labors and respectfully incloses a complete copy of its findings and recommendations, which it is trusted may be found of value.

Thanking you for the opportunity thus given,
Yours, respectfully,

GEO. A. NEWHALL, *Chairman,*

FOREWORD.

The question of establishing "free ports" in the United States as a new national policy has been raised in Congress, and to Hon. William Kent, a member of the United States Tariff Commission, has been assigned the duty of collecting and preparing data on the subject for transmission to Congress.

The consideration of the matter before the San Francisco Chamber of Commerce was inaugurated by Mr. Kent at a meeting held October 23, 1917, which was attended by representatives of the mercantile and shipping interests around San Francisco Bay, and this report is the result of the investigation that ensued.

A brief explanation of the nature and purposes of what is meant by a "free port" may be of service in comprehending the following argument in favor of its institution.

Free ports, or free zones in portions of harbors, have long been known in Europe and Asia, but the subject is much misconceived in the United States because of the ambiguity of the word "free."

It does not mean freedom from harbor or port charges, such as tolls or wharfage on cargoes, dockage on ships, pilotage, towage, etc. Nor does it involve any change in tariff policy. Briefly, it means freedom from customs control.

A reasonably large part of a port is segregated for the conduct primarily of foreign commerce, and in order to guard against intrusion by unauthorized persons and for the better enforcement of laws and regulations it is inclosed by substantial barriers on both land and water sides. This constitutes the "free zone," and from it all customhouse activities, except precautions against smuggling, are excluded.

Here the imported merchandise is landed, and when the imports pass through the land or water gates of the inclosure into the country elsewhere, then at that time and at the gate, theoretically, the duties incident to the collection of the tariff dues begin and all the complicated rules and regulations of the customs service first go into operation. If the imports are not taken for domestic consumption, they may be reexported, whether in the original packages or otherwise, without payment of tariff dues or interference by customs officials. The same is true of foreign raw materials landed and worked up into manufactures inside the free port and designed for reexport.

While the imports are in the free zone they may be stored in nonbonded warehouses or handled ad libitum by the parties interested with absolute freedom, and may be prepared for shipment either into the country or for transshipment or reexport to foreign countries and started on their way, without the onerous impediments now caused by customhouse supervision, red tape, and penalties.

It is merely a new system of customs collection and supervision. The customhouse, so to speak, is removed from the ship and wharf, where it now holds sway, and is set up at the gates of the free zone.

The proposed change does not in any way affect the nature or size of the tariff dues, simply the method and manner of their collection and the places where the customs activities shall be exercised. The aim is to put them outside the free zone entirely.

Of course the inclosed area of water and land inside the free zone must be sufficiently large to accommodate the foreign commerce of the port, and it should be

provided with all the necessary wharves, nonbonded warehouses, railways, spur tracks, and devices required for the rapid and economical handling of cargoes.

This report was prepared on behalf of the San Francisco Bay conference alluded to by Mr. J. J. Dwyer, former president of the Board of State Harbor Commissioners in charge of the port of San Francisco.

FREE PORTS AS A NATIONAL POLICY.

We have reached the conclusion without a dissenting voice that a national policy of free ports should be inaugurated by the Federal Government for the reason that such a policy would directly tend in a marked degree, well worth the cost of the necessary changes in the present system, to increase profitable foreign trade and build up a merchant marine, whether the latter is to remain privately owned and operated, or be more or less governmentally owned or controlled or operated.

In giving our reasons in detail, we shall try to avoid anything like an essay on the theory of the subject, or an attempt at a summary of the practice and experience of foreign free ports, which would be only a useless repetition of matters better stated in other compilations and reports. Of such reports of American origin, we refer particularly to those emanating from the Merchants' Association of New York, which we have found most illuminating, and have studied, with hope, with profit. We may say, briefly, that the New York conclusions seem to us well-founded and their reasons clearly stated and very persuasive in favor of the idea. We have no hesitation in saying that we share their convictions most decidedly.

We had attempted a treatment of the subject in the abstract, but on perusing the argument in favor of the installation of a free port on New York Harbor, which was submitted to the United States Tariff Commission by the industrial bureau of the Merchants' Association of New York, it became apparent that much of our matter could be eliminated as mere repetition of what is there contained in more cogent form, and therefore what we have to say will be largely supplementary to that argument or illustrations drawn from our local experience.

THE PORTS OF NEW YORK AND SAN FRANCISCO ANALOGOUS IN FOREIGN OUTLOOK.

The geographical situation of San Francisco Bay, with respect to the Pacific Ocean trade of the United States, is justly comparable with that of New York, with respect to the Atlantic trade, even if the New York trade partakes in larger measure of the character of world trade. This analogy holds good both as regards back country in America and as regards foreign countries facing us. Russia, through Siberia, Japan, China, Java, Australia, New Zealand, and even British India now have trade relations of great volume and value with and through San Francisco. This is true also of the eastern shores of the Pacific, South America, Central America, Mexico, and Canada. Statistics to justify this statement are readily available and need not be cited here. The names of these countries alone call to mind enormous populations, hungry for our manufactures, cotton, steel, metals, and food products and other raw materials, and themselves teeming with food products and raw materials which

we need and must have, not only for our domestic use but also indispensable if we propose to compete successfully with Europe in supplying the world trade. Expatriation on this idea would be easy, but its applications are obvious. The reasons that are valid in New York are valid here.

So, like New York, we approach this subject in no small or local spirit. We have tried to measure it on the national scale. Is the free-port policy a wise departure for the Nation? Will it pay? Will the results justify the cost? Are its manifest advantages offset by any demonstrable disadvantages, that either outweigh the advantages or come so near balancing the scale that the change is not worth while? Can the present customs system, the growth of a century of experience, be remodeled in its operative methods and adapted to the free-port idea without disadvantage to the customs revenues either in cost of collection or security against smuggling?

We have kept these fundamental questions in mind in reaching our conclusions.

We assume that foreign trade is a good thing, even an indispensable thing, for our country, and we assume that a merchant marine owned and operated by our own people, under either public or private auspices, is highly advantageous, and, in fact, that recent experience due to the world war has demonstrated that a merchant marine is almost vital to the preservation of our political and industrial system, let alone a profitable enterprise in itself.

For the present purpose such assumptions will be made. We believe in both of them most religiously. Arguments as to them belong elsewhere and are readily available. But it is proper to say that it is our profound faith in both assumptions that makes us vividly realize the tremendous importance of the free-port idea. San Francisco is a commercial community. For the 70 years of its existence it has thrived on foreign commerce. Its future is bound up in its expansion and extension in all directions and to all countries. Our horizon is the world. We want our markets eventually to be everywhere, but without any boasting we have the vision to see that the present beginnings in the Orient and on this side of the Pacific will in the immediate future grow by leaps and bounds, provided we are not handicapped in the race by governmental regulations that unnecessarily impede foreign trade and which can be removed by wise changes and no corresponding loss. Our natural advantages of geographical situation, the possession of a harbor almost unequalled in size and conveniences, with deep water, negligible tides, no storm damage, a mild, even climate the year round, these give us the necessary basis for foreign trade in a measure rarely equaled.

HELPS AND HINDRANCES.

What remains is for us to see that the legitimate artificial helps are speeded up and that the artificial hindrances are reduced to a minimum.

Briefly, the artificial helps directly under our control come under the domain of transportation, ship, rail, and otherwise, switching and other conveniences; and under the head of general harbor facilities, including quicker and cheaper warehousing and freight handling in every department. These can not be discussed here, but must be mentioned, because they must all be connected up with the free port idea most intimately and definitely before the latter can be even

understood and especially before the latter can be seen to be an appreciable step in advance. It is because and principally because the combination of artificial helps alluded to, in themselves capable of indefinite improvement, will work better and flourish and grow better under free port arrangements than under the present system, that the free port idea is at all to be considered.

The difficulty about the argument for the free port from the theoretical side is that it so obviously sound as to be axiomatic, and discussion or expatriation tends rather to obscurity than clarification.

As a matter of course, freedom from customs control, and the incidental delays, costs, vexations, and losses, must inevitably benefit foreign trade. To argue otherwise is to say that a man can work faster or better with a couple of fingers or a hand tied up or missing.

It would be foolish to say that the freedom of the port in and of itself alone makes a port great in its volume of foreign trade. We have great ports that are not free ports. It would be ridiculous to contend that the trade of London or Hamburg, for example, has been due solely or even mostly to the kind of "freedom" involved in the free port idea. Many factors and causes, some natural, as above stated, some artificial, of the kind alluded to, others that belong under the head of financial organization, labor conditions, Government aid, etc., in varying degrees in different great ports, go to make up the sum, but what is in point here is to note and make plain that the freedom of a port from unnecessary interference by Government officials and rules and restrictions, whether customs or otherwise, must necessarily and to an appreciable degree be a real factor to be reckoned with. It may not be so easy to see this in the case of London and Hamburg, where the other factors are so overshadowingly important, but it is very easy to see it in the examples of Hongkong and Singapore on the Pacific, and it has been made quite apparent in the recent brief trial in Copenhagen in Europe. We must content ourselves to mere references on these aspects of the subject.

If the freedom of a port is a measurable factor in its prosperity, it follows that conceivably it may in many cases be the deciding factor as between it and its foreign rivals.

LOOK ACROSS THE PACIFIC.

A general survey of Pacific Ocean commerce will in our judgment warrant the conclusion that a national free port policy applied to San Francisco Bay would mean in a short time the establishment of an international market on San Francisco Bay comparable in importance with Hongkong and Singapore.

When we consider how much of the trade of both these great world ports is directly and plainly traceable, in the first place, to wise governmental helps of an affirmative character, and secondly, to the absence of customs control or interference—that is to say, to the fact that they are free ports, we arrive at some comprehension of the degree in which it is true to say that the greatness of both ports has been largely artificially established by England.

Both these ports are, on the one hand, practically "branch stores," as they have been aptly called, for the sale in the Orient of goods from all nations, and, on the other hand, they are the assembly places of the innumerable cargoes, large and small, that come not

only from their respective immediate neighborhoods, but from all over the Orient, and whose ultimate destination is Europe or the Americas. In this way are collected, and then sorted, graded, and packed, the spices, cocoa, teas, vegetable oils, tin, and other ores, rubber, copra, and other raw materials, in immense volumes, that might indeed have been gathered up elsewhere, but are gathered up and reexported by Singapore and Hongkong largely because of their superior port arrangements based on the free port policy. These artificial arrangements have been main, if not controlling, factors in making them the distribution centers and market places both for imports to and the exports from the Orient.

THE PACIFIC—OCEAN OF OPPORTUNITY.

San Francisco ought to fulfill similar functions as between the Orient and Spanish America, and we believe the free-port system would help appreciably in giving a strong impetus to the creation and indefinite expansion of that branch of foreign commerce which embraces the reexport trade.

The argument must be brought down pointedly to that particular department of foreign commerce which involves transshipment or reexport.

IS THE TRANSSHIPMENT TRADE WORTH SEEKING?

We will fail to understand the question in its nature or magnitude unless we start with a fair appreciation not only of the utility of foreign trade as a whole, but also a sufficient estimate of the large department of foreign trade which consists simply of the processes of handling over and over again the same things, in their passage from the fields of their production to the factories where they are turned into goods or to the shops where they are delivered to customers, and, conversely, the repeated handling of the finished products on their way out from the factory to their markets the world over. Of course the profits are in proportion to the volume handled. The profits of this merchandising commerce go to the ports best equipped by natural and artificial advantages and with highly developed financial and business organizations. It is a commercial truism that trade will, within limits, follow the lines of least resistance. And, of course, where customs regulations are absent, to that extent indubitably will trade flow preferably through free channels.

The transshipment business of the world runs annually into billions of dollars. Good authority makes the figure over four billions. Up to the world war much the greater part was done in free ports. It is well worth the effort to get our share.

Comparatively, but a very small proportion of America's trade with foreign nations has come under this head, but its growing importance has been made more and more manifest by the developments and changes due to the present war.

That business in the Occident has heretofore centered in the neighborhood of the British Channel and the North Sea, and in the Orient at Singapore and Hongkong.

If American ports want to compete successfully with European and Asiatic ports in this rich sphere of trade, we will be handicapped in the race just in so far as that trade is artificially hindered by the manner and method of the enforcement of the customs laws. Nothing is here said or intended for or against either

a high or low tariff or for or against a protective or revenue system of tariff taxes. We mean to confine ourselves solely to the manner and method of enforcing the collection of the tariff taxes, whatever be the particular policy in force, as to the kind or amount of the customs dues. We are familiar with and know from experience the costs, delays, vexations, and losses due to customs red tape and supervision. They are, we believe, a very serious impediment to the reexport trade and foreign commerce, generally. If removed, the gain will be enormous. If they can be removed by the simple process of putting the customhouse and its red tape wholly outside the free zone or free port, without any loss to the Government in revenue, without any increase in the cost of collecting the taxes and without any greater risk of smuggling, surely nothing remains of the argument except the single question as to whether in the older ports the change can be effected without too great a cost for the physical constructions or rearrangements necessary to install the free-port system. In the newer ports, where there is much virgin territory to work on, of course this part of the problem is of easier solution.

In the latter aspect it is proper to point out that on San Francisco Bay the present situation lends itself admirably to the proposed change. It would be idle to go too deeply into that question at this time. If the policy be a wise one nationally, the natural advantages above adverted to, an inspection of the San Francisco Harbor on both sides of the Bay of San Francisco, a consideration of the commercial propensities and aptitude of our people, the evidence furnished by immense recent outlays for harbor improvements and the superior facilities now available, all combined demonstrate the justness of the conclusion that San Francisco Bay is an ideal site for a free port.

In the arguments and data appended to this report, contributed by subcommittees, and which are incorporated herein in support of our conclusions, the argument from economy frequently appears. It may be reinforced in another way. The multiplication table, it must be remembered, will be industriously at work. It figures enormously in the balance of advantages. Even the smallest economy in handling freight due to the superior arrangements practicable only in a free port with well coordinated transportation systems and freight-handling devices, multiplied by the number of times the operation takes place in the course of a year, soon runs into fabulous figures. People are astonished to be informed that it often costs as much to transfer a box of apples from one part of a city to another as to ship it across the continent. And similar amazement will follow the institution of a free port, where, under freedom from customs interference, cars, ships, warehouses, and all the other means and methods of collecting, transporting, sorting, cleaning, packing, grading, and other manipulation of goods and materials, are brought into closest juxtaposition, and consequently where all these intricate and complex things may be done with the minimum of friction, delay, cost, vexation, and loss. A saving in the smallest point of the entire operation multiplied by the endless repetitions of the same thing year in and year out—what will the figures amount to? Our new habits of thrift may give some faint idea of the total.

Opponents of the free-port policy will point out that our present enormous foreign trade has grown up in the absence of the free-port policy, and that it will

undoubtedly develop indefinitely under the present system of customs collection, with such modification as may be suggested by experience as we go along, and that such a radical departure as that involved in the establishment of free ports is for that reason unnecessary and, because of the cost and confusion of the proposed changes, unwise.

It is plain that the argument for the new policy will fail unless we demonstrate that the gains in efficiency and economy will probably outweigh the costs and other disadvantages of the change.

• GIVE FOREIGN COMMERCE WINGS, NOT SHACKLES.

Anything like an exact calculation of such obscure and complex factors is extremely difficult, but our best judgment, based on the experience of foreign ports, a working acquaintance with our own present customs and harbor systems, and a study of the question in the abstract, has convinced us that under a free-port system foreign trade will be expanded and its profits enhanced in the following ways:

First. It is self-evident that reexportation, even in original packages, will be facilitated, speeded up and cheapened, if the goods and materials do not have to pass through the customhouse at all.

Second. Storage in nonbonded warehouses will be facilitated, accelerated and cheapened. The ideal arrangement is to have them right alongside the landing places. Right alongside the warehouses should be the railroad switch yards, connected up with the many transcontinental and State systems that may be brought to the wharf directly or by a connecting belt railway switching system. The bonded warehouse would not be eliminated, but would be provided outside and not inside the free zone. Its present advantages could thus be retained.

Third. Inside the free port repacking, blending, mixing, cleaning and other legitimate commercial manipulation of merchandise destined for reexport is facilitated. These things can go on in the warehouses of the free port or in open places provided. In bonded warehouses these processes are "cribbed, cabined, and confined" in a way that not only seriously impedes but often in instances totally prevents the business.

Fourth. Foreign merchants can maintain sample or consignment stocks therein without duty unless finally admitted into the country. The customhouse only protects itself from smuggling. That would be a great advantage. It has been proposed, since the Panama Canal opened, to have a perpetual exposition of goods on the Isthmus, where foreign and American merchants could maintain sample and consignment stocks. That would be advantageous to both sides. And why not in free ports elsewhere?

Fifth. Quickened and cheapened distribution of goods into the interior or to other nations on our other frontiers. This would tend to build up distribution centers. The geographical location and the topographical features of San Francisco Bay make it ideal for a vast distributing center and international marketplace.

Sixth. For steamships, emphatically "time is money." If we could eliminate or materially lessen the delays due to the customhouse, so much the better for the ships already in the trade; so much greater the inducement for other ships to come.

Seventh. The free port tends strongly to make ships sure of cargoes both going and coming, by making practicable the distribution of incoming cargoes to, and the assembly of outgoing cargoes from, tributary territory, thereby attracting ships which would otherwise go elsewhere.

Eighth. The required facilities would be furnished for all freighting operations between ocean and rail carriers and warehouses and to and from all of them, without customs impediments, until the freight was about to enter customs territory.

Ninth. It results in saving, due to such freedom, in time, labor, worries, and losses in transfer of freight. Handling, drayage, and other expenses would be reduced. There would still be customhouse brokers, but cargoes would not have to deal with them or through them while the goods were in the free port. There is no doubt that their business would be simplified by an arrangement where the customhouse is at the gates of the free port.

Tenth. From the pecuniary standpoint, the one from which we ultimately look at this problem, the returns must undoubtedly be correspondingly enhanced both to the carriers, ship and rail, and to the merchants, importer and exporter.

Eleventh. The greater the natural advantages of the port from its geographical and topographical features and from its market and trade connections, and the better its harbor improvements and facilities, the more surely and immediately and largely would the benefits flowing from the institution of the freedom-from-customs control system be reaped. Freedom alone will not make a port big or prosperous. It is simply one of the desirable factors.

ALL INTERESTS BENEFITED BY FREE PORTS.

The free port system certainly adds to the pleasure of foreign business, adds to its profits and adds to its volume.

The benefits may be considered from different standpoints.

First, from that of the owners or charterers of the ships. It is self-evident that the ship's owners and the charterers would be benefited enormously. The system would strongly tend to build up a self-sustaining national merchant marine.

Second, from the standpoint of the merchants, importer or exporter, the advantages are equally plain.

Third, from the standpoint of harbor administration. If the customhouse toll gates were at the entrance of the free port, harbor arrangements would inevitably be in far better shape. The customhouse man and his necessary interference on the wharves would be eliminated. In our experience in San Francisco we found that many times consignees are unfair in a practice of making the customhouse an excuse for keeping cargoes on the wharf longer than they should be kept; and freight congestion is alleged to be due to inadequate wharf arrangements, when, in fact, it is frequently a case of juggling in order to secure free storage on the piers. It means much to the port to have this congestion reduced to the lowest terms. It is a very serious and costly detriment to a port to have the wharves piled up with goods because real, and frequently pretended, customhouse requirements compel it.

Fourth, from the standpoint of customhouse administration. We are aware that this is one of the hard knots of the problem. From the customs standpoint the free port arrangements must, of course, be entirely consistent with the sure and cheap collection of the customs tariff; but the experience of the free ports of other nations, even with high tariffs of a protective nature, would indicate that customs experts can find a solution of that feature of the problem. We appreciate the fact that the burden is on the advocates of a free port policy to show that present customs arrangements operate on foreign trade as a handicap of really serious proportions, that they not only increase unduly the operative cost of the foreign trade we now have, but also in all likelihood prevent new trade coming or otherwise hinder its growth, or give rival ports, without these hindrances, just that much advantage in the contest. We have tried to keep the practical in mind and avoid anything that savors of the academic. In this view we sought the advice of experienced customhouse brokers, because in the end the decision arrived at by Congress will doubtless be based largely on what may be thought to be the teachings of customhouse experience. An article on the subject from this standpoint by Mr. F. F. G. Harper, who has had many years experience in San Francisco as a customs broker, is appended and will no doubt be found instructive.

Fifth, from the standpoint of the manufacturer. We refer, firstly, to manufactures within the free port for export to foreign countries of products wholly or partly made from imported raw materials, which under the present system would be subject to duty in the first instance and upon which drawbacks are now allowed when exported. The drawback system is so little in vogue in San Francisco that our experience is an insufficient guide as to its real merits. The consensus of opinion is that up to date it has not been of much use. It is generally denominated by those who have sought to use it a nuisance rather than a genuine stimulus to such trade. We must leave the drawback question to the experience of larger manufacturing centers. Of course, if such manufactures were centered within the inclosures of the free port, it would require just so much more land area—a consideration that, generally speaking, would probably confine that department of the free port within comparatively small proportions.

Probably the principal advantage that the freedom of the port would contribute to the American manufacturing industry as a whole, not only in regions near the ports, but throughout the country, would result from the creation in such ports of international market places for the assembly of foreign raw materials needed by our manufacturers. This feature of the subject is ably set forth at length in the New York article alluded to, and we leave the matter there.

ADDITIONAL REPORTS.

We also append an article prepared by Mr. John Clausen, of the Crocker National Bank, on behalf of our subcommittee on foreign trade.

His committee circulated questionnaires, of which a sample is attached, among those interested in the foreign trade. An admirable answer was received from Mr. J. H. Polhemus, of the Hamberger-Polhemus Co., a long-established firm of exporters and importers in San Francisco. We incorporate this in our report

as written as an illustration of what our merchants have learned from actual experience touching on the free-port idea.

We have accepted Mr. Kent's suggestion that until Congress has first declared in favor of a free-port policy by general legislation arguments in favor of a particular locality as a suitable site for a free port will not be opportune. We recognize that they will be appropriate for later consideration, either by Congress, if it directly names the sites, or by the executive department or other bodies to which that duty may be delegated under general laws. However, as certain preliminary reports on the suitability of San Francisco Harbor, on both sides of the Bay of San Francisco, have been submitted, we take the liberty of forwarding them for filing, to be presented later at the proper time.

CONCLUSION.

In conclusion, we desire to emphasize the desirability of as quick a decision as possible by Congress on this weighty question. Space will permit of only the barest reference to the profound changes in the currents of the world's commerce that will surely result from the world war and the full use of the Panama Canal. The enormous merchant marine in process of creation must continue to be used when peace returns. Preparedness for peace can not be neglected except for war measures, but should go on where consonant with them. And it is difficult to see in what better direction preparedness for peace could move than in perfecting our harbor facilities for handling foreign commerce. The free-port arrangement is simply a gigantic harbor facility and, we believe, one that can be made most fruitful in its application to our country. It will take much time and labor and money to carry it out, and the period of indispensable preparation should not be postponed longer than is necessary.

ADDENDA.

REPORT OF SUBCOMMITTEE ON CUSTOMS MATTERS.

We have given considerable time to the effort to obtain concrete examples of delays and expense that the importers and vessel owners have been put to by reason of having to comply with customs rules and regulations, confining ourselves to those that would be eliminated by the establishment of a free port.

Very rightly it has been said that customs is the first and last word on this subject, and our committee has endeavored to forecast the movements of the foreign commerce of this port with respect to sources and classes of merchandise in order to understand where this increased commerce would encounter delays and expense due to customs supervision. We have also had to take into consideration that the present tariff is one mainly for revenue only and that another administration might revert to larger and more numerous protection features, and hence many articles, such as coal, hides, coffee, etc., in the line of bulk goods, and numerous manufactured or packed goods now on the free list might again become dutiable and require weighing, gauging, measuring, appraising, etc., as well as examination by the pure-food inspector, Bureau of Animal Industry, etc. Therefore, although we are able to report on some of the hindrances that have existed in the last few years, undoubtedly there are many more difficulties which existed under other tariffs and would recur with a change of tariff laws.

In enumerating some of the advantages to shipping by eliminating customs control, we summarize as follows:

SAVING OF TIME AND EXPENSE TO VESSELS.

- (a) Delays due to customs boarding officers would be obviated.
- (b) Prompt docking and uninterrupted discharge of cargo.
- (c) Omitting necessity of giving heavy bonds to customs, obligating steamship agents to pay any loss of duty by fire, theft, casualty, etc., and the consequent delay while these matters are adjusted with the customs.

(d) Not being required to make application to customs, obtain permit and pay for inspectors' services when it was desirable or necessary to work early or late hours or on Sundays and holidays.

(e) Bonded and/or foreign cargo laden or unladen at will.

(f) Vessel's discharge not stopped because of some error or delay in customs papers, which, at times, besides the cost by reason of delay, has entailed fines to vessels ranging from \$100 to \$5,000.

(g) Not being required to keep drawback goods separate from other cargo and give to the customs officials six official hours' notice before lading same.

(h) No further holding of teams on the dock until customs inspector is able to check all bonded goods teams may have before loading on vessel, or unladen bonded goods teams may have for export vessel, bonded warehouse, or appraiser's store. This checking would be done outside of free port. Once goods were placed on the dock, either from or for the vessel, no customs delay could occur, thus securing more prompt clearing of docks.

Considering the foregoing few items noted, it is easy to perceive that there would be a great saving in stevedoring and other charges because of frictionless handling, it not being necessary to stop and learn whether the customs had passed this or checked that drawback or bonded package if outgoing, or any and all packages if incoming, which, if it had not been inspected, would have to be passed by or moved aside until the customs official was done with it. Also, if I understand correctly the methods in force at Hamburg, a violation of the Chinese-exclusion act and violations because of the desertion of alien seamen in this port, would be practically impossible as to those vessels whose cargo was all foreign and could be discharged at the free port and take on other cargo which had been assembled there for them, because then these vessels would not touch at other shores of San Francisco Bay, and the watchman of the vessel and harbor police would see that these people were kept on the vessel and the customs would be the guards at the other gate of the free harbor to stop them, provided they had eluded the first two systems of guarding. At the outer gate those with the right to enter the United States would be examined and passed, or they could be taken direct from the vessel on the tug to immigration station.

All shipping men are very familiar, to their sorrow, with the very heavy fines paid for violations of these laws. We will note a half dozen items of fines charged covering the recent record of a little over one year of fines assessed to vessels in this port out of about 40 different causes:

Vessel fined for failure to produce duplicate bill of health, maximum fine.....	\$5,000
Area for steerage passengers not posted, fine.....	340
And additional fine against the master of.....	100
Failure to include certain items on the outward manifest of vessel, fine.....	500
Discharge of foreign merchandise without authority in absence of inspector, fine treble the value of merchandise and forfeiture of vessel.....	
In this case the master had gone ashore, and the barge man and the mate, who were unfamiliar with customs regulations, agreed that the barge could receive cargo in the stream, remaining alongside vessel until next morning. But later in the day as it appeared a storm was coming up, the barge man moved the barge to the dock. In view of these circumstances, the fines were mitigated to a charge against the vessel of... and against the barge owner of.....	700 200
These were paid, with the attorneys' costs and there was also the loss of time in preparing and presenting defense, etc.	
Failure to make entry and enter merchandise at the custom-house.....	1,800
Failure to enter within 24 hours.....	100

Bonds are now required to be given for residue cargo which is to be discharged at following foreign ports and in order to cancel said bonds a lading certificate or other evidence is required from abroad. This is a heavy obligation and it is sometimes difficult for steamship owners to obtain the necessary certificates to cancel said bonds.

There are many more cases of minor infractions of our customs rules, some perhaps because the Government under whose flag the vessel sails does not enforce certain rules that we do, such, to give a few examples, as those in our so-called seamen's bill, those laws requiring the marking of part of the equipment of a vessel, and the maintenance of two compartments exclusively for hospital. Frequently, fines are assessed for breaking the customs seals, and for error in, or for not filing, complete store list of vessel. These fines are sometimes mitigated and sometimes remitted. But in such

cases the offense has been trivial, or there were extenuating circumstances. Nevertheless, discharge of vessel has been stopped, master or owner has had to attend at the customhouse and expense has been incurred in defending the charge.

The foregoing few items clearly indicate that a free zone, eliminating such annoyances and losses undoubtedly is beneficial to vessels and particularly attractive to new liners or tramps, they knowing that costly fines and delays encountered with customs would not be possible at the San Francisco free harbor. For to steamships, most emphatically, time is money, and the knowledge that all customs requirements were done away with, would be the greatest inducement possible to offer for other ships to come to this port.

A seaport originates and grows principally because of the export and import trade of its own country. But the facilities developed for this trade render such a port also the natural center where trade between neighboring foreign countries will focus. The small ports of Mexico, of Central America, even the Atlantic ports of South America, can not have direct sailings to and from all oriental ports. It will be natural for many of the goods from these ports to be transhipped here, especially as San Francisco is but 400 or 500 miles off the great circle steamer track between the Panama Canal and the ports of China, Japan, and Siberia. But as long as we maintain a tariff, means must be provided to diminish or eliminate entirely the avoidable obstacles which it presents to the class of trade just described. Three different plans have been devised. Two of them—the drawback system, and the system of bonded warehouses—are in use at American ports. If they were adequate, this report would not have been written.

We should provide a better means of procedure for export trade, leaving the bonded warehouse to supply a necessary method of handling foreign goods for domestic consumption.

THE BONDING SYSTEM.

Under the bonded warehouse system, dutiable goods may, before the duty is paid, be taken from wharf to warehouse, whence at any time within three years they may be exported. At the end of three years the duty must be paid; likewise, if it is at any time desired to use the goods in the United States, and to insure that the goods be not used without payment of duty the hauling to and from dock and the storage must be done by business concerns who have given heavy bonds to the Government. In addition the owner of the goods must also be bonded in the amount of double the duty that would have to be paid should the goods be smuggled, lost, stolen, or destroyed.

The movements of the goods have all to be under the supervision of customs inspectors, and the bonded warehouse is in charge of a customs storekeeper, by whom it is closed with a special Government lock during the noon hour and outside of business hours, so that not even the owner of the warehouse may enter during his absence. No work within the warehouse is possible outside of these hours without special permission and heavy expense for customs overtime. Goods must be piled so that they can be checked at any time by special Treasury Department agents. A multitude of other rules must be observed far too numerous to mention, so numerous in fact that they occupy three chapters of the present customs regulations.

It is obvious that the expense of the bonds and the required supervision in transit, upon receipt, while in warehouse, upon delivery, and again in transit not only directly increases the expense of handling and storage, but also indirectly through the slower movement entailed.

There are other disadvantages altogether too numerous to be detailed here. We will briefly hint at one or two. Cases can be opened only when damage to the goods is threatened, and special permission first must be obtained and the work done in presence of customs officers. Goods can not be transferred to other cases, either in whole or in part. Duty if paid must be based on original value, and must be paid on full contents of the package, even when there has been deterioration during storage. We will merely hint at the expense involved in general orders to store goods as unclaimed and at the further stringent rules applicable to warehouses bonded for special classes, such as spirits and tea. Enough has been said to show that the device of bonded warehouses falls far short of meeting the requirements of a large foreign trade under competitive conditions.

THE DRAWBACK.

When the dutiable article is a raw material used in manufacture, either alone or with other raw materials native or foreign, the bonding system, of course, can not be used, and the customs provides that upon the export of such manufacture a rebate of the duty is granted on such part of the actual foreign material as is contained in the exported manufacture. To illustrate, imported chiclé is

used in the manufacture of chewing gum; imported feathers in making pillows and mattresses; foreign tin plate was formerly used in large quantities in making cans for our salmon and fruit. When the gum is exported the duty of 15 cents per pound on the chicle is subject to drawback (after deducting 1 per cent), and similarly, as to the feathers and the tin plate actually used in the cans.

Here again, however, is a complicated and difficult system. The imported goods must be kept separate in the factory, its records must be kept as prescribed, and both goods and records must be open to inspection at any time. If the factory is incorporated, its articles of incorporation must be filed at the customhouse; six official hours' notice of lading upon export vessel must be given, so that the inspector may be present and check the goods; oaths to all transactions must be filed by importer, foreman, superintendent, and exporter; trade secrets as to manufacture must be disclosed. Finally evidence of foreign landing, or a bond to obtain such evidence, must be furnished. If all this and still other details be properly attended to, the drawback is payable 30 days after shipment.

So complicated and unsatisfactory is this system that it can be used with profit only in a very large export business. Quite a few of our local merchants after experience abandoned all thought of applying for the drawback.

IMPORTATIONS FOR CONSUMPTION IN THE UNITED STATES.

The matter of valuation is one of the most difficult features, and one about which all importers have at one time or another some trouble with the customs. The value must be the wholesale market value in the principal markets of the country or place of shipment at the time of shipment. Frequently goods are bought under contract, or for some reason the shipper sells at a lower price. The chairman of this subcommittee was recently told the following instance by an importer: Under a previous tariff hides were dutiable. A Mexican rancher had shipped some hides to this importer. In that country hides are a sort of by-product, of practically no value, so a nominal value was placed on the invoice. This was raised by the customs, and the importer was required to pay a heavy fine, the reason for which the shipper is naturally quite unable to understand. Using the Spanish for "never again," he is shipping no more hides to this port.

A large shipment of refrigerated egg meat in tins arrived on one of our oriental liners some time ago. The goods could not be landed until arrangements had been completed to haul at once to a bonded refrigerated warehouse; but there was no wholesale market at the place of shipment, and the question of value required telegrams, cables, and much discussion with the customs and caused heavy expense because of delay to vessel, of overtime charges at vessel and at warehouse charged by draymen, stevedores, ship's clerks, customs inspectors, weighers, and customs storekeeper. In a similar New York case the importer to keep the vessel moving took a chance on his invoice value and had to pay some \$30,000 in fines.

In addition to the rules designed to insure collection of the duty the customs is charged also with the enforcement of certain other complicated laws, such as the Chinese-exclusion act, the pure-food law, the laws under the Bureau of Animal Industry, the copyright law, etc.

When damaged goods arrive they must be held on the wharf until the customs adjust with the importer. Frequently marks are obliterated. Sometimes the condition is such that it is impossible to get a count of the damaged portion. Consequently, there is apt to be a dispute involving the importer, vessel, and customs. The importer is not permitted to recondition the goods, because the identity would be lost or it would be impossible to keep such a check that proper duties would be paid. In many cases it is cheaper to accept the only method provided by customs laws and abandon the goods, provided that the portion damaged is more than 10 per cent of the shipment; but the damage must be discovered and the goods abandoned within 10 days after making entry.

THE FREE PORT AS AN INDISPENSABLE AID TO REEXPORT TRADE.

Enough has been said to show how utterly impossible it is to think of our controlling any large amount of the transshipping trade between foreign ports until some means is adopted to avoid entirely the customs barrier as regards such trade. The only method that has been suggested is the free port.

We shall endeavor to illustrate by concrete examples the various advantages which have been set forth, and we think it can be shown that the establishment of free ports in this country would benefit not only the seaports at which they might be located but could also be of immense advantage to the export trade, to manufacturers, to banking interests, and to the country generally.

The interrelations of the various factors of trade are such that each reacts on all the others. Any facility which increases trade thereby brings nearer the range of possibility larger facilities which

would involve too much capital or too much space for the smaller trade. Increased quantities mean lower prices and cheaper freight and these again open new markets and again increase quantities. In this way the various advantages which we can anticipate if free ports be legalized would be cumulative, and the ultimate development might very well surprise the most optimistic. This aspect of the question should be borne in mind in what follows.

GRADING, REPACKING, AND SORTING.

If after goods were landed in the free port, sorting and grading by the importer showed that some portion would not be allowed into this country, such goods would be regraded and packed for any foreign markets available. If it were desired to ship two or three articles out of one case to Salvador and two or three others to Guatemala, and so on, it could be done. This would increase imports greatly, since, first, the cost abroad would be less (buying in bulk and unsorted, etc.), and, second, the larger quantities purchased would aid in lowering the cost price.

There are undoubtedly many articles that could be imported into a free port and regraded, repacked, or reconditioned, or small quantities of which could be taken out of one case and used to fill into cases with other goods suitable for certain foreign markets. As one example, beans. In 1910, when I returned from a trip to the Orient, I mentioned to one of the large bean dealers of this city that an immense amount of beans was to be had in Japan, Manchuria, and Siberia. He replied that they would buy shiploads of this commodity if they were able to buy graded goods; that the main trouble was that the oriental shipper did not know how to grade, or would not do it, and when the goods arrived here it was impossible for the importer to sell them. I expressed surprise because we grew beans to such a large extent here, but he said that the demand was so great that they could take any amount of beans and sell from this market if they only had a way of selecting, grading, and packing such goods in the Orient, so that when they arrived here they could be immediately sold and dispatched. Manifestly, a free port here would put the importer in the position as though his beans were in the foreign country just outside of his door. In other words, he would step across to the free zone, do the packing, regrading, etc., himself, pay his duty on the portion which he desired consumed in the United States and export the other without molestation from officials.

Other familiar examples are pepper from Singapore, rice from China, coffee from Central America, matches from Japan, and gums from Java. The resorting, regrading, repacking, etc., of these goods into such shape as is necessary for customers at other foreign points, our merchants can not handle because of customs hindrances, whereas a free port would permit all of this.

Very recently the customs regulations have been changed as to the bonds given by importers so that one bond given by an importer obligates him to fulfill all of the terms of the laws under the customs and other before-mentioned acts, and it frequently occurs that shippers sometimes without knowing better, and at other times for the purpose of "getting by," send articles to importers which are in violation of the aforesaid laws and the importer knows nothing about it until after his entry has been made and he has become the victim and therefore must pay the penalties. Had the goods been landed at a free port, he would have taken his samples, probably place some of the goods in warehouses of the free port, and there made his entry for those goods which were in the proper condition for making entry.

A free port would obviate much of the disturbance incident to a change of tariff. To illustrate: Coffee, tea, and other commodities, which are free of duty are collected at this port, often in small lots, and when foreign orders are received, they are filled from these shipments. When upon our declaration of war, it became necessary to devise additional taxes, it was proposed to levy a duty upon these commodities. What a furore this created with the trade. Contracts for either foreign or local trade, made at prices based on no duty, could not have been filled without loss, because it would have been impossible to find transportation for a sufficient quantity before the new law would have become effective. If we had had a free port the foreign trade would have continued without interruption, while, on all goods finally entering the United States for consumption, the Government would have received its duty in due time. Furthermore, owing to the increase of business which this existence of a free port here would bring about, as previously explained, the stocks on hand, being graded and awaiting foreign orders, would have been so much larger than were actually on hand, that existing local contracts could have been completed before the duty would have become effective.

Recently an order came here from Russia for 100,000 bags of coffee. Had coffee not been free of duty and no free port here, this market could not have had that trade because the answer to the prospective buyer must have been:

"It is too bad, but we have paid duty on this coffee and can not now quote you a good price."

BENEFITS TO THE INTERIOR—TO THE WHOLE UNITED STATES.

Although it might seem that the freedom of the port would contribute mainly to the encouragement of importations from foreign ports, yet it is manifest that such encouragement to come to this port would thereby be given to so many steamship lines, and to tramps and sailing vessels, that our whole State and other States of the United States that produced anything suitable for a foreign market would also be very greatly benefited, because there would always be vessels here ready to move their commodities. The interior merchant, manufacturer, and farmer would not find to his sorrow that his shipment was not on the ocean, but held with some thousands of cars of freight in this port that are destined for the Orient, Australia, etc., for which we have no vessels and no warehouses, as is the condition to-day. And such loss would not be avoided in many cases, even in times of peace.

As to Hamburg, I recall some 10 years or so ago, long before the war, a forwarder of Hamburg came to the United States and made contracts with large houses all over the Union, at both seaports and interior cities, to furnish them with their goods from Germany and Austria within a certain period. There was to be no uncertainty about receiving Christmas, Easter, or other seasonal goods, in time. He secured a large business. Necessarily, that meant that he visited the factories all over Germany and Austria, and instructed these people when and how to forward the goods by rail or river or canal up to the free port; here he sorted the assembled goods and marked them, and when the steamer arrived in the free port of Hamburg, the vessel got quick dispatch and the shipper low freight rates. There was no such disorganization as we have in recent years witnessed at East and West ports in the United States, loaded cars shunted here and there awaiting steamers, perishable goods spoiled, sales lost, because goods did not reach destination on time, and the interior farmer, merchant, or banker disgusted with efforts to do foreign business.

In the free port of Copenhagen the importer can secure up to 75 per cent of the value of his stored goods. Though it is a little out of the province of this subcommittee, we may be pardoned for calling attention to the opportunities which the banks might anticipate through loans on goods temporarily in port. The large item of handling exchange on all the greatly increased shipments is obvious.

It is recognized that we are a producing country now, with a surplus to dispose of, and foreign markets are absolutely necessary.

Our people only faintly apprehend the degree to which our foreign commerce is dominated by customs control. Every move made by vessel or cargo, master, or importer respecting foreign goods must first have sanction of customs.

We hear the cry of "crowded docks." "If we could only make consignees take the cargo away." You say, "Consignees make the excuse, 'Customs have not issued permits'; we want more docks." What good would more docks do other than to make more room on docks for importers to use as warehouses unless you get customs dispatch? Does it not seem clear that a free port solves the problem as to foreign cargo and further, thereby, releasing other docks for domestic cargoes?

THE OPPORTUNE TIME.

America is now about to get its ships. Millions will be spent on the shores of this harbor for shipbuilding plants. Other millions will be devoted to harbor facilities to take care of the trade the ships will bring. We are told that the Government is to build fleets of river boats. The railroad terminals will be enlarged with reference to the harbor plans. A period of tremendous trade development is certainly imminent. Is all this to go on without any provision for the elimination of the intolerable friction inseparable from present arrangements? It is unthinkable. No comprehensive plan for harbor development can be undertaken unless provision is included for the establishment of a free port on such a basis that its facilities for years to come can keep abreast of the harbor's increasing trade.

REPORT OF SUBCOMMITTEE ON FOREIGN TRADE.

So numerous are the angles of approaching the subject of a free port or free zone policy that a great deal of time and space could be devoted to its discussion.

The rapid and substantial growth of free ports operated by other nations, whose business consists mainly in transshipment and exportation, however, furnish convincing data in favor of such a national move.

The universal testimony appears to be that a free port has aided immensely in quickly building up both the foreign and domestic trade of every harbor where it has been properly established.

When we realize that Hamburg in 1913 had forged ahead until its foreign trade surpassed London by \$100,000,000 and far exceeded Liverpool in imports, notwithstanding the fact that England is a free-trading country; that Hamburg's total foreign commerce was

only \$6,000,000 under that of New York, and that Hongkong surpassed New York in clearing foreign-trade tonnage several years before the war, Singapore advancing as a collecting and distributing center, and Copenhagen winning the trade of the Baltic, it becomes apparent that the free port is not a mere theory, but a practical producer of prosperity.

Traveling and visiting many harbors, making observations and holding discussions with captains and shippers large and small, will demonstrate to anyone the important place that harbor facilities occupy in the commercial development of a city.

Industrial and commercial development are dependent upon transportation. The efficiency of transportation, rail or water, is measured by the cost and speed of handling goods.

Inadequate harbor facilities poorly correlated with railroad transportation are prime contributors to the high cost of living, as slow and expensive circulation of supplies inevitably add to their cost. It is obvious that the more hands through which goods pass from producer to consumer the more the public must pay.

The war has made our people appreciate more than ever before that we can not claim or hold commercial supremacy if we are inefficient on the sea.

At the opening of the Civil War American ships were carrying 70 per cent of our exports and 65 per cent of our imports.

At the opening of the world war in August, 1914, Great Britain, Germany, France, Italy, Japan, Austria-Hungary, Russia, and Belgium controlled 72 per cent of the world's ocean carrying capacity, and although our foreign trade, exports and imports combined, amounted to \$4,500,000,000, or more than one-tenth the world's business, our merchant marine was capable of transporting only 9 per cent of it.

At the end of the war we will have materially gained in tonnage, and Old Glory will be floating from the taffrail of a powerful merchant fleet.

It is then that the need of free zones in the United States will become immediately apparent and immeasurably valuable.

Your subcommittee on foreign trade sent out a questionnaire—a copy of which is hereto attached—to leading firms engaged in or interested in shipping activities, and obtained much helpful information regarding advantages which a free port would lend to develop foreign trade through the port of San Francisco. This was supplemented by individual research and investigation, personal interviews, and discussions.

As a result of this work we are able to present a résumé containing a variety of arguments showing the benefits of a developed and properly organized free port.

(1) Ports are the gateways through which commerce must pass. Every form of waste, whether of time or money, that can be eliminated means to that section and to the country added facilities.

(2) The establishment of free ports will tend to encourage new business and make land area more valuable as a terminal and cheaper as an entrepôt. Traffic follows the line of least resistance, with saving of time, labor, and money.

(3) By handling traffic more economically and expeditiously a free port or free zone will encourage and give impetus to surplus production, and benefit shippers, consignees, and consumers.

(4) Free ports will be the means of saving interest on large sums of money by precluding the necessity of tying up funds for customs duties whilst goods are held in warehouses.

(5) Free ports will increase the speed and decrease the cost of receiving, transferring, and reshipping of merchandise.

(6) Free ports accord facilities for unloading goods which may be stored, packed, mixed, assembled, manipulated, and even manufactured within the free zone with the greatest possible freedom. Manufacturers are accorded the privilege of exhibiting and demonstrating their goods, grading and altering same for domestic or export use. Buyers can examine, test, and compare the commodities of the world before making purchases.

(7) Well-developed free ports or free zones in the United States stimulate the growth of exporting houses and enable them to hold goods for set periods without the payment of duties, often equal to the cost of the commodity itself. Besides supplying a more convenient outlet for American goods, free ports will aid the American manufacturers in need of foreign supplies by bringing raw material to our shores cheaply for subsequent import or export, as the needs of the trade demand.

(8) The number, speed, and efficiency of cargo boats will be greatly increased and in this direction a free port becomes a vital factor in enabling us to meet the foreign trade demands that will be placed upon us after the war.

The harbor of San Francisco, when it first met the enraptured gaze of Portola, November 1, 1769, possessed more advantages than others less richly endowed by nature. Since then its golden portals have been open the year round and never required dredging, maintaining a permanent unshifting depth of 48 feet. San Francisco Bay has always been able to admit the largest of the world's vessels, and all of them combined could find anchorage here and

be sheltered in summer and winter from heat and cold, from heavy seas and squalls and storms.

San Francisco is not only the gateway of the Far West but it is the gateway to the Far East. More than half a century ago Bret Harte called San Francisco "the warden of two continents."

Gazing out through the Golden Gate across the broad expanse of the Pacific we look through the open door of China. What an inexhaustible market China would be for our products, if we went after it.

Japan, rapidly winning a place in the sun and becoming western in constitution, civilization, and commercial relationships, offers a most attractive field for our products.

A warm welcome awaits American representation and American goods in all Australasian markets.

The Philippines present a pleasant picture. Ten years ago we furnished the islands only 26 per cent of their imports. We now supply 50 per cent, and they would gladly buy the other 50 per cent from us, if we could offer more adequate transportation facilities.

As we look southward we see the Republics of Central and South America, with enormous trade potentialities. How vast this trade may become with proper attention, encouragement, and systematic development can hardly be overestimated. Our foreign trade statistics offer convincing evidence.

The immediate effect of war upon industrial and commercial policies is undoubtedly to prompt nations to make themselves as nearly as practicable independent in all things necessary to life and the national defense. When the war broke out, Great Britain found that the product of the Australian lead and zinc mines was under contract to German firms and that neither in Australia nor Great Britain were there reduction works adequate in capacity to convert the Australian product into the munitions of war which were needed for the defense of the Empire. Likewise, the great textile industries of the United States, Great Britain, and France were found to be largely dependent upon German dyes.

In the long period of peace, international trade relations had expanded and confidence in the maintenance of peace had grown, until in many instances the industries of countries had become more or less inter-dependent. Even the neutral countries, as those of South America, have found themselves seriously inconvenienced by the difficulties attendant upon transportation, and manifest an inclination to diversify and develop their home industries to a greater extent than before. In all conferences between representative men of the various dominions of the British Empire, there is expressed a sentiment favorable to more intimate trade relations, and to reciprocal policies which will tend to bring this about. It seems probable that steps in this direction will be taken, although serious difficulties are certain to develop when the attempt is made to reduce such a policy to tangible terms.

It may be expected that the alliances established during the war will influence trade policies to some extent after the war, and that commercial treaties will be made with a view of recognizing and promoting the friendly relations which exist. The antagonisms, in turn, which have been developed between enemy countries will, no doubt, affect trade relations for many years, no matter what the terms of the treaty of peace may be. On the whole, it may be expected that protective tariffs will be in favor after the war, and that trade will be influenced to a considerable extent by commercial treaties. In this connection, it is to be considered that the United States, by reason of the great purchasing power of its people, is the most desirable market place in the world, and should be able to obtain as favorable terms for trade as are granted to any country.

QUESTIONNAIRE ADDRESSED TO SAN FRANCISCO'S FOREIGN TRADE.

1. What particular products imported or exported by your firm would be affected most favorably by the special facilities offered by a free port, such as expeditious and economic handling of merchandise and free access to and control of your own goods, packing, mixing, sorting, labeling, manipulating, manufacturing, etc., without the customary "red tape" and restrictions connected with bonded warehouses?

2. What would be the specific advantages to you as regards the following:

- (a) Conditioning.
- (b) Assorting.
- (c) Repacking.
- (d) Stock carrying.
- (e) Firm sale basis for transactions.

3. What dutiable foreign materials do you import and utilize in articles that you reexport?

4. What products have you for export that require imported raw materials to manufacture?

5. What is your annual volume of drawbacks?

6. What substantial benefits will be conferred upon shippers, local and inland, consignees and consumers by attracting more

cargo and ships, more transit traffic by making this harbor a base for transit and domestic imports?

7. What opportunities for foreign trade expansion do free port facilities offer?

8. What do you consider the special advantage from an economic, industrial, and commercial standpoint that would result from the establishment of a free port zone on San Francisco Bay, and what superior advantages have we to offer?

9. General remarks.

ANSWER TO QUESTIONNAIRE.

By J. H. POLHEMUS.

1. Practically every article that we handle or would hope to handle we would greatly prefer handling in a free port, inasmuch as we do not confine ourselves to importing goods to go directly to consumption in the United States, but operate overseas with many districts, continuously endeavoring to bring goods in from one section and forward them on to another.

2. (a) *Conditioning*.—In regard to conditioning, the number of cases that can be quoted is unlimited. By way of mentioning a few, we might state that corn from Spanish America arriving weevily can be fanned, put in new sacks, and reexported to some other Spanish-American or other oversea market, and thus not make it necessary for the importer to agree to sell same in the United States under the pure food provisions of "Not for human consumption." Lots of coffee that might arrive too low to pass Government specifications can be mixed and brought up to an admissible standard. Low grades of coffee can be shipped forward to the market and will probably reach here in quantity, so that there might be a considerable volume of cheap, low-grade stuff that might find sale in some Asiatic market, and the business might just as well be done from San Francisco as from some European port. Goods that might become damaged by heat in hold could be examined and if their condition has changed so that they were not up to standard desired by buyers in the United States the duty has not been paid. Goods damaged by salt water would not automatically come under the head of condemnation on account of quality under pure food, etc.

(b) *Assorting*.—Various beans, gums, rices, etc., would afford distinct opportunities for taking advantage of the market. Goods that reached here and were considered not up to basis on which bought could be held in the free port and part accepted and part rejected. It would not be necessary to enter the entire amount covered by the bill of lading.

(c) *Repacking*.—More stocks could be carried and be much more flexible. This would enable dealers to quote lower prices, as they would have a quicker turnover and not such high percentage interest per unit or dead stock with a prospect of a loss. To illustrate our ideas, in many parts of Spanish America some goods have to be packed for mule-back transportation, others in cases of a weight for llama transportation, and others in cases for cart transportation, etc. The currency in some countries demands a package that can be sold at an established money value which is current there, and goods are desired to come already in such packages, as matches, etc. Many firms wish their own labels, and this matter could be facilitated.

(d) *Stock carrying*.—One of the big factors in this heading would of course be the carrying of larger stocks as there springs up a big steamer service. This is not guesswork; it is a statement of fact based on what has happened in every other free port. Ships that go periodically from Europe clear through to some destination in Asia could much more readily call at San Francisco and discharge their cargoes. This means that instead of Vladivostok, or Darien, or Yokohama having a direct steamer from Europe every 60 days, these goods could be brought in steamers that would much more readily find a cargo if destined to San Francisco and could go via the free port on steamers that would run continuously between here and the ports mentioned. Merchants would rather buy from San Francisco, as they would not have to tie up so much money in the stock, ordering same every two weeks instead of ordering a three or six months' supply at a time. The inauguration of such routes would lead to other commodities being brought in and markets found for them, which helps work up a trade route.

It is trade routes that work up the big business. Steamship owners know what a dead loss empty space is in their holds and would much rather keep their vessels continuously running in an established trade route with full cargoes.

In this connection it is well to call attention to a fundamental point that should not be overlooked, and that is that the authorities should settle on a few ports and make a drive to develop them big. The big ports in the world have been developed by hard driving and concentration.

(e) *Firm sale basis for transactions*.—This is of fundamental importance and can not be overestimated. Many illustrations that

probably have been given by ourselves as well as by others might be explained at the moment as being articles that have not any duty, but Congresses are continuously changing, and tariffs in the light of past history are likely to change again. There is no reason why distribution to oversea ports should at all be interfered with by tariff consideration, which has only to do with the consumption of goods in the country itself. A free port would give a steady sale basis for a port and establish it on a firm basis as being an exchange market on the world's highway of traffic.

3. This question we regard as being more applicable to those engaged in manufacture, but of course such articles as burlap is one that applies to every firm.

4. We regard this question likewise as applying principally to manufacturers, and might call attention especially to fertilizing companies.

5. No answer.

6. Any merchant to-day has daily brought to his attention the opportunities that there would be for importation and exportation if he could get steamer space. Free ports develop trade routes and attract steamer space. As far as aid to the merchants in the surrounding country, there is no argument necessary to explain the advantage of being situated in a port that is directly connected with the different producing or manufacturing countries.

7. In answering this question it is necessary to consider the institutions that are in all lines of legitimate activity, or say, producer, banker, manufacturer, distributor, consumer.

The producer would have outlets for his goods established by the inauguration of steamer routes, and therefore would have a wider field of marketing.

The banker would have the opportunity of financing many different lines of commodities, and on account of better transportation facilities would probably be working in a market that would furnish a great deal of short-term paper, as well as have their field of opportunity in foreign exchange greatly enlarged. A number of commodities from different parts of the world generally equalize a demand for money, so that same can be kept constantly employed and would not make it necessary to seek employment through the stock market's demands. This is something that is greatly appreciated in Europe, as produced goods are real wealth and must necessarily have real value, whereas many of the quotable stocks are never considered by the average speculator on their real intrinsic value, but simply on what they will sell for as against tightness of money, etc. We believe that it is a statement of fact that articles of first necessity rarely stay for any prolonged time below the cost of production, and therefore have a fundamental value. Stocks can go to almost any figure irrespective of what their face values or book values might show.

The manufacturers would have the advantage of direct communication with the source of supplies and/or increased distributing outlet.

Distributors: In the established markets that are preeminently leaders and have had a long and extensive training practically all the exporting is done through export firms. These firms are almost ranked in the professional class on account of their intimate knowledge of the peoples, countries, trade customs, and general conditions of the foreign countries in which they operate. Such firms are already established in San Francisco, and any manufacturer of any commodity, whether he was located in Denver, Spokane, Eureka, or Sacramento, can send cuts and data to these different houses, who would gladly take them up with a view to presenting them in a proper and attractive manner, give advice as to writing the description in the language of the country to which they are addressed, and then bring them before the proper channels for distribution. The hit-or-miss system employed at present by every little manufacturer endeavoring to spend a lot of money in useless advertising and sending out circulars in the wrong language to irresponsible accounts in different foreign countries is simply a symptom of nervous energy that will ultimately dwindle down to the proper trade distribution as explained above, and as has been worked out in London, Hamburg, etc. At a free port trained houses, as mentioned above, will continue to be represented and will be augmented probably by others.

Consumer: It is always hard to tell just how much of any benefit will reach the ultimate consumer, but there is no denying the fact that direct handling and the creation of big openings of marketing opportunities, such as a free port, on account of its increased operation and activities, permit the landing and marketing of goods on a cheaper basis. The free port likewise tends to do away with temporarily high prices on account of shortages due to lack of steamer service.

In regard to the advantages of San Francisco Bay, these can be divided into what can be termed natural and artificial.

NATURAL ADVANTAGES.

It is one of the finest harbors in the world, with plenty of deep water and area for dockage. It is never frozen up and is situated in a climate where goods keep well as regards temperature and moisture. When one realizes the amount of tonnage that is handled at, say, Singapore, where big ships have to lay off, or in Hongkong, where there is a great amount of moisture and heat at different times of the year, and handling is all done by lighters, you can realize what a natural advantage this port has. Kobe, which is doing a tremendous business at present, has only a small area protected by a breakwater, and it is necessary sometimes for steamers to lay out beyond it on account of no space. Steamers are attended by lighters.

San Francisco is likewise located in a position that would very easily supply the other ports on the north and south of it, such as Seattle, Portland, San Pedro, San Diego. It is a natural place to break cargo and distribute.

ARTIFICIAL ADVANTAGES.

As regards artificial claims for San Francisco, we believe that there is no port on the Pacific that contains as many merchants that have gone through foreign countries and done so much work to establish connections and get intimately in touch with the conditions of such countries and the requirements of their trade and the personality of their merchants. San Francisco's trade at the present time is almost all its own and radiates on account of the activity of its merchants. In a word, the position of San Francisco can best be understood by anyone that is at all familiar with foreign trade by saying that if a man in any foreign country has any commodity, whether it is sugar, or coffee, or hemp, or beans, or anything else, he wishes to know what the market is in San Francisco, New York, London, and Hamburg. This is due to connections and banking, and the former took a great deal of time and represents a great deal of effort.

9. *General remarks.*—The above having gone into detail quite extensively, we only wish to add that one of the great factors that hangs over 100 per cent of the importers' heads is Government red tape. There may be ways of handling many things, but if a merchant spent the time to study them up he would not have time to do any foreign business. The word "free" port in itself is a call to freedom of exchange which is like an invitation to the foreigner to trade, as he does not fear pure food regulations, undervaluation fines, or any technical local laws of a country, and the merchant located in the free port reciprocates the same feeling in the same way.

COMMITTEE ON FREE PORT.

George A. Newhall, chairman, H. M. Newhall & Co.
 John H. Rosseter, vice chairman, W. R. Grace & Co.
 Hon. T. S. Williams, board of harbor commissioners.
 Hon. John H. McCallum, board of harbor commissioners.
 Hon. Richard J. Welch, board of supervisors.
 Hon. J. J. Dwyer, attorney.
 C. K. McIntosh, vice president, Bank of California.
 J. R. Hanify, J. R. Hanify & Co.
 Larry W. Harris, Ames, Harris, Neville Co.
 John Clausen, vice president, Crocker National Bank.
 W. H. Hammer, president Foreign Trade Club.
 F. F. G. Harper, customs broker.
 C. J. Sullivan, Thrift (Inc.).
 J. H. Polhemus, Hamberger-Polhemus Co.
 Cary W. Cook, American-Hawaiian Steamship Co.
 E. O. McCormick, Southern Pacific Co.
 W. G. Barnwell, Atchison, Topeka & Santa Fe Railway.
 H. K. Faye, Western Pacific Railroad.
 Gov. George C. Pardee, Oakland.
 J. H. King, president Chamber of Commerce, Oakland.
 A. W. Maltby, Concord, Contra Costa County.
 George S. Wall, Richmond Industrial Commission, Richmond, Cal.
 C. P. Converse, secretary.

Resolutions Adopted by the Board of Directors of San Francisco Chamber of Commerce April 9, 1918.

Resolved, That the San Francisco Chamber of Commerce approves the report to the United States Tariff Commission under date of February 28, 1918, made

by the committee on free port appointed by the chamber, and

Resolved. That the San Francisco Chamber of Commerce indorses the idea of the establishment of free ports in the United States and urges Congress to enact as soon as possible suitable legislation therefor.

I hereby certify that the above is a true and correct copy of resolutions adopted by the board of directors of the San Francisco Chamber of Commerce at a meeting held April 9, 1918.

L. M. KING, *Secretary.*

Extracts from Report of Hearing Held by the United States Tariff Commission in the Assembly Room of the Merchants' Association, of New York, December 18 and 19, 1917.

* * * * *

WILLIAM HARRIS DOUGLAS, chairman, subcommittee and foreign export committee of the Merchants' Association of New York City:

Gentlemen of the commission: I have pleasure in addressing you on behalf of the subcommittee of the foreign trades committee of the Merchants' Association. Our association embraces the largest number of merchants of the city of New York, and therefore we speak for these members, although many will appear before you in person. The Merchants' Association sent an agent abroad to study this subject, and then we took this up ourselves through experts and engineers, and held public hearings. Those hearings were very enlightening, and quite extensive, as far as the personnel of the people who appeared before us is concerned, and they almost unanimously agreed that a free port or free zone would be a desirable thing to have, and that a desirable place to have it would be at the port of New York.

A free port is necessary, first, in order to attract shipping. That is what originates a free port. If you can bring the shipping of the world to your doors by reason of any special advantages you can then very readily acquire the status of a great commercial country. You must have a few advantages.

* * * * *

Now, just a word or two in connection with the drawback system and the bonded warehouse. Many people think those two things make a free port unnecessary. A bonded warehouse takes in goods. They must be estimated and weighed, but here we have not the legal right nor the space to repack and reassemble goods, both of which are essential. The inspection of those goods requires three or four days' time. It is true that you can bring the goods into this country by paying the duty, and that you can secure the drawback, which is 99 per cent, if the goods are exported. But you have the interest loss, and you have the loss of customhouse values, and all those annoyances. Therefore, the opinion of every man is that those systems, while coordinated, are not according to his desires. He is afraid of them, and if you say he can put those goods in the free port and take them away as he pleases, he knows the situation and therefore he is not troubled with red tape in the customhouse or charges he is not familiar with.

When you come to the question of the merchants abroad, that is most important. A free port must and should attract the import trade to this country. There

is no reason in the world, with our Panama Canal, why a large share of the raw products of the world should not come to our markets, if we establish a free port with the advantages which I have mentioned.

* * * * *

The exporter would go there, and the commission house would have to follow for two reasons: first, our port is congested, and we must hire warehouses at high prices, and store goods. But it is not a useful system, as we do it at heavy expense of cartage and lighterage whereas, those charges could be eliminated, or reduced to a minimum in a free port.

The CHAIRMAN. You are speaking of domestic exports?

Mr. DOUGLAS. Yes.

The CHAIRMAN. And not speaking about foreign commerce?

Mr. DOUGLAS. Not about foreign commerce.

The CHAIRMAN. And your idea is that the great volume of domestic exports could be handled through the free zone?

Mr. DOUGLAS. I think every merchant would have to have some establishment there within the zone.

The CHAIRMAN. How big a free zone do you anticipate?

Mr. DOUGLAS. Not less than 300 to 500 acres. Some people say that 3,000 acres would not be too large.

Commissioner KENT. Is not that small?

Mr. DOUGLAS. If we start within 500, we might grow soon to 5,000.

Commissioner KENT. Do I understand you to say you think most of the domestic export would go through the free zone?

Mr. DOUGLAS. Oh, no. When it is a question of the manufactured goods, and having the vessel on the berth through the regular channels, people to load her and regular commerce to ports in any part of the world, there would be no necessity to go to a free zone. The goods would come there from all parts of the country, and would go right on the vessel loading. The regular lines that are loading a regular vessel every 10 days or 2 weeks to Rio de Janeiro, or other places abroad, would probably not utilize the free zone as their loading place.

The CHAIRMAN. Do you mean liners?

Mr. DOUGLAS. Yes.

The CHAIRMAN. Would you do that also with vessels going straight, with complete cargoes, to foreign ports?

Mr. DOUGLAS. If they are loaded on the berth, yes. A great advantage to the exporter who is not a regular loader for other people is that he could accumulate his freight through a warehouse in the zone. When the vessel is chartered by him, he has his goods all ready for shipment. He sends his vessel there and gets her loaded and away from the port as quickly as possible. He does not have to do it by way of the regular liner, which sends goods regularly and takes goods for other people. The general idea may be that the regular liner taking freight, say, to Buenos Aires, is the only one that carried freight to Buenos Aires. That is not correct. All of the big merchants do loading on their own account. That is the advantage of the free port. But smaller merchants would patronize the general lines of communication, and not go through the free port.

Commissioner KENT. If a man with raw material wanted to collect a cargo, having some imported goods to be reshipped, and desired to mix them with some domestic goods for export, do you think he would go to the free zone?

Mr. DOUGLAS. Yes. It would be to his advantage to do so.

Commissioner KENT. Would not that sort of disposition of the cargo put a large part of the port's commerce in the free zone? Are not the cargoes largely mixed, as it is?

Mr. DOUGLAS. The amount of export goods of any kind and description which would go through the free zone as compared with the amount that would go in the regular way, if the free zone were established, is a difficult question to answer, of course. My own opinion is that the free zone's importance would grow, and that ultimately 25 or 30 per cent of the exportable goods would go through the free zone. As to manufactured goods, unless there is mixing or assembling to be considered, they would not go through the free zone.

* * * * *

I do not think the free zone would do away with the advantages which these freight and passenger steamers now have.

* * * * *

The question of assembling is very important. The manufacturers are required to pay in accordance with the weight and size of their packages. If they can send their goods knocked down and have proper floor space, so that they could have men assemble the goods on arrival, that would be different.

* * * * *

I want to make this country the storehouse of the world, as far as lies in our power. Now, when we have those shipping facilities which we have not had prior to this time, they will be a large factor in helping in that direction.

That embraces, gentlemen, our ideas, except to say that we are thoroughly in earnest in this matter, and we thoroughly believe in the proposition. We believe it will be for the benefit, not only of our city, but of the whole country, and we believe the free zone should exist here and elsewhere. If we make a chain of free zones, you could have a free zone in the Philippine Islands, and other points I have mentioned. I believe that inside of 25 years we will be the greatest importing and exporting country that the sun of the world has ever shown upon. The Philippine Islands are the natural point of the East. They are under our control to-day, and giving us that advantage, with the other advantages which free zones would give us here, we will have almost an ideal situation.

* * * * *

Mr. ROBERT H. PATCHIN. I am the manager of the foreign trade department of W. R. Grace & Co., exporters and importers, and I would like to present a few views to the United States Tariff Commission through you gentlemen at this hearing at the Merchants' Association to-day.

The natural growth of the import trade of New York has been enormously accelerated by the war conditions, and this has brought us face to face with the problems of the discharge and handling of our imports. The same is true of other ports in the United States.

Whereas in the past, importers were given fair facilities by the steamship companies and wharf

owners to distribute their goods, they are now pushed to remove them immediately on arrival or incur wharfage expenses, the steamship companies in many cases putting the goods in store for our account. We have just received a notification from the Panama Steamship Co. that certain sugar to arrive in a few days must be taken from steamer by lighters, as they will not allow us to handle on the dock.

The congestion is becoming so serious that it is only a question of time when most goods will have to be handled twice, once from the steamer to some place where the goods can be sorted out, weighed, and distributed, and once to destination. The extra expense will operate to discourage the consignment of produce to this port.

The reason for this state of affairs is that the port of New York is not only chronically behind in its facilities as compared with its growth, but the conditions arising out of the war have made this chronic defect more evident and shown that the port is not prepared for natural expansion.

One great requirement is the preliminary separation of imports into three classes; that is, free goods, dutiable goods, and goods in transit.

Since the increase of wharf and storage space is urgent, the free-zone project becomes a phase of, and must be considered in connection with, the larger problem of providing more facilities for present and future requirements. The free-zone proposition enables the simplification of the larger problem and in fact becomes an almost necessary part of it.

* * * * *

The establishment of the outer free zone would not in any way prejudice or render useless any facilities now existing. The present docks, warehouses, lighters, etc., would be relieved of their present congestion and still be fully employed with the constantly growing traffic of the port.

* * * * *

One of our departments reports that the cost of handling wool, sugar, and cotton is now about double compared with the cost before the war—1914. Besides direct cost, the congestion operates indirectly to increase the handling charges. Instead of being allowed to sort out and weigh the goods on the dock, they are now to a great extent forced into warehouses, although, were a little more time given, they could be shipped without further expense to the consumer. Moreover, in view of the warehouses on the water front being congested, we are sometimes obliged to send the goods to warehouses off the water front, and sometimes to warehouses of a poor character, involving high rates of fire insurance. All this is additional expense which under proper conditions would be unnecessary.

The establishment of a free zone in the harbor of New York will bring to New York shipments from Asia, South America, Australia, and other producing countries for distribution not only to the United States and Canada, but also to Europe, the West Indies, and the east coast of South America.

For instance, pepper will come from the East to be classified in New York according to the requirements of the various markets, and from New York shipped to Europe, South America, Canada, West Indies, etc. This business was done previously in Hamburg. That brought to Hamburg money to the steamship companies that carried the goods, the docks and ware-

houses that held the goods, the laborers, the bankers who advanced the money, the shippers, and others.

* * * * *

To establish New York as such an international center, the necessary American merchant marine is now in course of development. The banking facilities are also ready, and all that is necessary is a free zone in which the goods could be stored, reassorted if necessary, for the different markets, and, in general, handled without any of the restrictions inherent to the system of bonded warehouses and drawbacks.

* * * * *

Commissioner KENT. Do you think a free port would expedite the making up or assembling of cargoes?

Mr. PATCHIN. Yes. Every time you get part of a cargo it would help you to finish it up with the balance needed.

* * * * *

Regarding the commerce which has come to this country through disruption of trade routes, we may cite rice as one commodity which has come across the Pacific to San Francisco. Mr. Kent, at a hearing in San Francisco where that was brought out in some statements in relation to the blending and mixing of rice, will know the importance of what I am referring to. The imports of rice now come across the United States and go to Cuban, Central American, and Caribbean ports. This transcontinental traffic is so large that consideration has been given to its stoppage, since it takes up so many freight cars.

* * * * *

In the same way cocoa and coffee have increased, and there have been large shipments of coffee to Vladivostok. I do not think much coffee was exported from San Francisco to Vladivostok before the war.

The tea routes have been somewhat disrupted, and the presence of imported tea in large quantities at New York and New Orleans and San Francisco has brought to these ports a very large number of buyers formerly accustomed to going to Europe. That has stimulated the export trade.

There has been a movement of American cotton goods to South American ports vastly greater than that before the war, through buyers coming here from South America.

Tin is moving in increased quantities from the Straits Settlements to the United States, and London's control of the tin market is not as complete as formerly.

Pepper, which at a hearing in San Francisco was decided to be not pepper at all, it being a blend, gathered and blended at Singapore, might also be mentioned.

At the present time there is an absolute conglomeration of imports for consumption in the United States, imports dutiable, which are placed in bonded warehouses, and imports on the free list, which move in a way of their own. I have tried to obtain the complete statistics of the movement of foreign produce transshipped through this port. I have no doubt that the Tariff Commission has worked that out.

* * * * *

Commissioner KENT. If you had a ship loaded very largely with free goods, coming directly into this country, and there was, say, 10 per cent of the cargo that was dutiable, but destined for other countries,

how would you handle that? Would you run your whole ship into the free zone?

Mr. PATCHIN. You would not have to have bonded warehouses in the free zone. The goods would not be dutiable as long as they remained in the free zone. The free goods going into the United States would pass through the free zone and through the customs.

The CHAIRMAN. Then there is the question as to the extent of the facilities available and the extent of the investment you have?

Mr. PATCHIN. Yes.

The CHAIRMAN. There might be a large increase of investments, and there would be no direct gain in the free port?

Mr. PATCHIN. The policy to be followed would have to fit the given needs.

* * * * *

Commissioner KENT. Would it be your idea that if a free zone were established, that your firm would have its own specific warehouses or warehouse in that zone, or would you expect to use the common warehouses established by some other agency?

Mr. PATCHIN. We would work either way, according to what was established.

Commissioner KENT. It would be a question of price?

Mr. PATCHIN. Partly. I think the merchants, exporters, and others would follow what seemed to be most advantageous for the general purposes of this scheme. If the free port could be filled with private warehouses, and in that way proved to be less of a burden upon the entire community, that might influence them.

Commissioner KENT. Would you consider that the big lines would have their own places in the free port, and they would be supplemented by berths and warehouses for tramps?

Mr. PATCHIN. I should think so.

Commissioner KENT. Or do you think it would be a matter of going into and taking a place by chance?

Mr. PATCHIN. I do not think they would want to stand in line.

Commissioner KENT. Have you considered the customs administrative rules and laws and the possibilities of changing them?

Mr. PATCHIN. No, sir. Most of our exports are articles on the free list. We are not manufacturers, and the question of raw material does not arise.

Commissioner KENT. You do not use the drawback system at all?

Mr. PATCHIN. Very, very little. I think the manufacturers enjoy that.

Commissioner KENT. Have you any impression as to whether a considerable development of manufacturing operations might be expected in the free zone?

Mr. PATCHIN. All the testimony I have heard and read on the subject implies there would be, but it is usually in the form of a general expansion. It seems that the questions of fuel supply, houses in the neighborhood, to take care of the force, etc., would enter largely into that matter. I could offer no opinion of value regarding it.

As Mr. Douglas pointed out, manufacturing is due to local evolution.

The CHAIRMAN. Your impression is that it is a transshipment business matter?

Mr. PATCHIN. Yes, sir. It is largely shipping.

* * * * *

Mr. CALVIN TOMKINS, 30 Church Street, New York City. We bring gypsum from Canada and manufacture it into plaster in New Jersey. It was free of duty for a time, and then a duty of 10 cents a ton was imposed. That does not pay the cost of weighing the material. The Government avoids the responsibility of weighing by throwing it on the importer, who weighs the material at his own expense, which adds to the charge, and the Government expenses take up what there is in the drawback. We had the drawbacks for a number of years on the material we exported to Cuba and South America.

The CHAIRMAN. Did you export much?

Mr. TOMKINS. Not much, but it was growing. The whole system is absurd, as the Government does not receive the cost of weighing.

The CHAIRMAN. With respect to your particular commodity?

Mr. TOMKINS. Yes. The drawback was a small item not worth bothering about, and we dropped it.

When I was at Hamburg five years ago, I was informed that the free port idea was not popular with the Imperial German Government. It was a survival of the free city privileges, and was one of the privileges which the city saved to itself when it entered the Imperial Customs Union. Its retention was a consideration for going into the Imperial system, and its importance was rather exaggerated. At least, that is the impression I received at Hamburg—because of the burdensome and restrictive regulations imposed by the German Government.

The free port privilege at Bremen was not used because the Government there threw so many harassing restrictions around it that it was not worth contending with them. At Lubeck the same conditions prevailed. I did not go to Copenhagen.

I hope the idea will take root, so that the country can be in position to exchange its commodities with those from abroad to advantage.

Mr. R. S. MACELWEE, lecturer in economics and foreign trade, Columbia University, New York City.

I should like to add to Mr. Tomkins's statement that there are two other free ports in Germany—one at Bremen and the other at Emden. At Emden, the Government introduced the free port. The antagonism is not between the Government and the free ports, but between certain interests and the free ports. There are several free ports established by the Imperial Government.

The other point I wish to make at this time is: I happened to write my Doctor's Dissertation on the Port of Hamburg. I can give you the exact cost of every step and the percentage of the annual budget at the port of Hamburg. I have not them with me, but can furnish them. I stopped where Prof. Clapp commenced. My work on the Port of Hamburg antedates that of Prof. Clapp, and if you would like to have it, I have one or two copies.

The CHAIRMAN. Does the port pay for itself?

Mr. MACELWEE. The port pays.

Commissioner KENT. Is there any sinking fund?

Mr. MACELWEE. Yes.

The CHAIRMAN. How about operating expenses?

Mr. MACELWEE. They cover the operating expenses. I can give you those figures accurately if you desire to have them.

The CHAIRMAN. We are interested to know whether, in your mind, the free port or free zone serves chiefly for the purpose of shipping and mercantile business, or whether it is important also to manufacturing?

Mr. MACELWEE. It is primarily a transshipping matter. It is the consignment market. We might in this country manufacture binder twine and certain things of that kind in the free zone.

* * * * *

The CHAIRMAN. Have you any impression as to the volume of additional transshipping business which would accrue from the establishment of a free zone?

Mr. MACELWEE. I think at first it would not be very much, but gradually we might build up American feeder lines to Canada, Mexico, and South America. The free port brings business.

The CHAIRMAN. Have you any impression as to any kinds of commodities? You do not speak of any business going out through the free zone.

Mr. MACELWEE. It would have no effect.

The CHAIRMAN. Would there be any probability of goods coming to this port for transshipment?

Mr. MACELWEE. Yes. It would bring a good deal. I do not see why an American free port should not supersede Hamburg, as it is the load factor in shipments.

* * * * *

The CHAIRMAN. Now, as to the relative advantage of a free zone and the enlargement of the bonded warehouse system. What have you to say on that?

Mr. MACELWEE. I think Mr. Tomkins's bonded warehouse is a free zone. I think it is a little camouflage for the very radical protectionists who would feel that their institution of protectionism was being broken down. I believe the bonded warehouse would be a free zone. I do not see any particular difference.

The CHAIRMAN. You would not abolish the present bonded warehouses, would you?

Mr. MACELWEE. No, sir. They are not abolished at Hamburg.

The CHAIRMAN. Have you given any attention to the present course of legislation in the matter of bonded warehouses?

Mr. MACELWEE. No, sir.

* * * * *

Mr. LUCIUS ROOT EASTMAN, Jr., president The Hills Bros. Co., New York:

Most of my study has been as chairman of the foreign trade cities committee. I concur in much that Mr. Tomkins and Dr. MacElwee have stated. We import dry fruits, dromedary dates, and currants from Greece, citron from the Mediterranean. We repack and standardize these goods, and export to Mexico and other countries. This business brought us in contact with the drawback system. I have come to the conclusion that the manufacturing end would be largely an assembling of food products. With the use of sugar, and the drawback on sugar, the difficulty which we experienced there has made the drawback claims, in our own case, so complicated and there are so many points which are objectionable, that we dropped making such claims.

The CHAIRMAN. The process of identification, too?

Mr. EASTMAN. Yes. I dislike the use of the term "free port." I would prefer "free zone." I think the phrase "free port" creates the wrong idea in the minds of people not familiar with this subject.

I am not sure that I can agree with Mr. Tomkins that the expanding of the warehouse system will give what a free zone will give us. The difficulty of policing, the difficulty of manufacturing in the bonded warehouse, makes it somewhat cumbersome.

I would not take advantage of the expanded bonded warehouse in my own business, because of certain lack of freedom.

The CHAIRMAN. That would seem to be inevitable under any conceivable regulation.

Mr. EASTMAN. Yes; and as the head of my company, in spite of the care we could give and the pleasantest relations between ourselves and the customs people, we still got mixed up.

Commissioner KENT. What are the troubles?

Mr. EASTMAN. Identification of packages and manufactures. From my point of view, 80 per cent of my business comes in raw goods, and is used in this country. For the other 20 per cent which I manufacture, and which goes into Canada, I do not need the free zone. It would only be when I had developed my business to 50-50 that that question might come up.

Commissioner KENT. Do you repack your dates at the bonded warehouse?

Mr. EASTMAN. No, sir. We pay our duty on them and pack them in our packing plant. It does not make any difference whether it is a free zone or a bonded warehouse. There are to my mind possibilities of liberalizing the present methods of bonded warehouses, and the drawback system, which would relieve many of the things which bother the manufacturer and merchant to-day. For instance, the time it takes to get your drawback is really foolish.

The CHAIRMAN. We would like some suggestions on that point.

Mr. EASTMAN. We have been able by closely following it up, to get better results, but when it runs into thousands of dollars, the interest charges surprised me when I investigated the question.

I think if there is to be a free zone, it should be limited to one, and not several in a port. I think there would be difficulty of administration if several were allowed.

Also, I think the question is one largely of the expanding commerce of this country. That is the main strength of this country.

The CHAIRMAN. Do you mean imports and exports, or the transshipping trade?

Mr. EASTMAN. The transshipping trade is what is in my mind. It is only an element, but to my mind the free zone would be a very helpful factor in building up this trade.

* * * * *

ALFRED SMITH, manager, industrial bureau, Merchants' Association of New York:

Gentlemen of the commission: By far the most beneficial and far-reaching effect of a free port is on the transshipment trade, because this is the trade which is most hampered by customs restrictions and supervision. Commodities entering transshipment trade are frequently shipped in large quantities and at a narrow margin of profit, and for this reason are especially benefited by any advantage which decreases costs, even if only to a slight degree. In a free port merchandise may be unloaded from the inbound ship, placed in warehouses, and reshipped at a future date without any customs formalities whatsoever,

thus eliminating the cost and annoyance of the formalities connected with storing goods in a bonded warehouse.

Transshipment trade is also carried on in a manner which differs considerably from ordinary trade. More and more it becomes the custom to sell commodities while they are still on the water, or to consign them to some port of the region of destination for sale and final distribution after arrival. This practice requires a large central port with adequate storage space, transfer facilities for the speedy handling of goods in transshipment, opportunity for unrestricted division and consolidation of shipments, a large market in which to sell, and efficient and far-reaching transportation systems for distributing merchandise to ultimate destination after it has been sold. A free port with its great freedom from customs supervision, specialized storage facilities, steamship connections with all parts of the world, and its low charges offers an especially strong inducement for transshipment trade to center there.

The so-called colonial products such as rice, coffee, cocoa, sugar, cotton, wool, rubber, and mahogany are fundamentally transshipment trade products. In other words, a great part of the world's trade in this type of product is not carried on direct from ports in producing regions to those of ultimate consumption; and during the shipment of such products cargoes are frequently divided, consolidated, and reconsigned. Furthermore, the shipment and sale of such commodities are peculiarly benefited by the facilities of a free port. Owing to scarcity of labor, capital, and cheap machinery in most of the countries which are sources of these products and also because they can usually be shipped more economically in a crude state or in bulk, they are compelled to seek those centers where they can most cheaply be sorted, cleaned, refined, graded, mixed, and repacked. For such operations a free port is excellently adapted, and therefore has immense advantages over the ordinary transshipment center.

A great center for merchandise is a powerful trade magnet and in producing such a center a free port is very instrumental in increasing the commerce of a port as a whole. A large and active free port clearing house for the world's merchandise guarantees full cargoes to all vessels entering it, and at the same time offers a market to which vessels can bring cargo as ballast, which is certain to be sold at profitable prices. For this reason a free port promotes direct steamship service with ports hitherto reached only by transshipment service because of the difficulty of obtaining full cargoes for vessels bound to those ports, as well as the difficulty of disposing of parts of cargoes brought from them.

A free port attracts ships on account of the absence of many of the usual formalities and the charges and delays connected therewith. For instance, in the port of New York at the present time a preliminary permit must be obtained before a ship can dock and discharge its cargo, otherwise 24 hours must ensue from the time of obtaining the permit to the time of discharging the cargo. A six months' bond for \$50,000 has to be filed with the customs authorities.

Commissioner TAUSSIG. Is that inevitable and necessary? Can that be remedied?

Mr. SMITH. I understand from telephone communication that it is unavoidable under the present law.

Commissioner TAUSSIG. Is the present law unavoidable?

Mr. SMITH. I could not say, except so far as I know it is always the case in all ports. It has never been done away with in American and foreign ports; in fact, I think perhaps these formalities have been in use and vogue perhaps more in foreign than American ports.

Commissioner TAUSSIG. Then there is no disadvantage with American as compared with foreign ports?

Mr. SMITH. Not that I know of. A free port will take charge of that, although preliminary permits are almost always taken out by steamship lines and by most steamship agents in advance of the arrival of the vessel. Nevertheless, in some cases, the captain obtains his preliminary or regular permit after arrival, and this incurs delay. In speaking on this subject officials of steamship lines entering the free ports of Hamburg and Bremen have stated that the dispatch with which a vessel can enter and clear the German free ports is of distinct value to shipping lines.

To some extent the direct import trade of the port is facilitated by the free port on account of lack of customs formalities and regulations. For instance, in the port of New York, if the importer has been delayed 48 hours in obtaining the necessary papers for getting his goods through customs, the merchandise is sent to bonded warehouses. This necessitates the formalities and cost of getting this merchandise out of the bonded warehouses before it can be shipped to the interior.

Indirectly a free port, if it is successful in creating transshipment trade or promoting the import trade, will tend to bring more vessels to the port. This in turn creates additional cargo-carrying space which is the reason why exporters will seek that port. A free port is of direct benefit to the industries tributary to the port, because of the great raw-material market which it creates. This raw-material market gives the manufacturer the advantage of a near-by source of supplies which may be obtained more easily, more quickly, and more cheaply than if the market did not exist. Furthermore, the raw-material market created by the free port has peculiar advantages because refining, grading, mixing, and similar privileges make possible the purchase of almost any grade or type of material desired. The ordinary manufacturer buying in a small or far-distant market is often at the disadvantage of being compelled to purchase materials in inconvenient quantities, of unsuitable grades, long in advance of consumption, and without the opportunity of personal inspection. As a result such a purchaser finds it a serious problem to purchase economically just what he needs and when he needs it.

If raw materials are purchased at a free port for future use, the payment of customs duties may be deferred by storage in the free-port warehouses more economically and satisfactorily than in bonded warehouses.

The experience of European free ports has shown that the creation of industry in a free port is a minor result of its operation.

Nevertheless, a free-port location offers great advantages to manufacturers producing chiefly for the foreign market and using extensively imported raw materials subject to a duty; such manufacturers will avail themselves of free-port locations. A free port is also a advantageous location for plants assembling foreign-made products both for reshipment and for sale in customs territory.

The operation of the European free ports, both large and small, shows clearly that in order to be successful a free port must be located in a port advantageously situated for transshipment trade; and it is also shown that in order to take full advantage of free-port facilities, a port must have efficient equipment and well coordinated transportation systems. This is true because a free port is chiefly a mechanism for facilitating trade rather than creating it, although the creation of trade is undoubtedly an important result.

The above statements as to the effect of free-port facilities on commerce and industry are verified by the experiences of the free ports at Hamburg, Bremen, Copenhagen, and at minor European ports.

* * * * *

Formerly London, Liverpool, and Hamburg were important ports for the collection of South American products and their distribution to the United States. For example, much of the Brazilian coffee reached the United States via Hamburg. London sold us quantities of Brazilian rubber. Our manufacturers and importers purchased Argentine wool and hides and Peruvian cotton in European ports. If a great transshipment port and central market is created, in which surplus products can be disposed of advantageously, and to which therefore shippers and carriers will bring raw materials from all over South America, it will be possible to obtain a much greater portion of the products direct than was formerly the case.

The United States and Canada have always bought great quantities of Australian, African, and far eastern raw materials in European ports. For illustration, East Indian spices have been purchased extensively through Amsterdam; London has been the great market for Australian wool; a large part of our imports of African rubber and mahogany come through Liverpool. The development of a great free raw-material market would, to some extent, break down the power of the European ports in the African, Australian, and far eastern trade.

The outbreak of the war came so soon after the completion of the Panama Canal that the trade routes through the canal have never been established. The completion of the canal has created a great opportunity for developing a collecting and distributing port on our Atlantic coast. On the one hand, there are the great raw material sources of the west coast of South and Central America, our own Pacific coast, the Philippines, Australia, and New Zealand, and even more distinct regions; and on the other hand there are the industrial nations of Europe, the United States, and eastern Canada demanding raw materials and food products of the lands bordering on the Pacific. The determination of whether or not this trade will remain under the control of an American port or pass to the great transshipment ports of Europe rests largely with us.

The free port in Hamburg has been one of the chief factors, if not the greatest, in developing the enormous transshipment trade and international market of that city; the free port at Copenhagen has developed the transshipment trade of that port; and the port of New York should receive as valuable benefits from the creation of a free port as Hamburg or Copenhagen, for in other respects New York is now well qualified to develop transshipment trade.

While the greatest value of a free port would be the aid given in developing a transshipment center and a

market for raw materials rivaling those of Europe, it would also have other beneficial effects which should be considered.

After the cessation of the war activities there will be urgent demand for additional and more efficient facilities for the handling of the enormous export and import trade which will undoubtedly come to the port of New York. It will be unwise to install new and additional facilities in any manner except that which the experience of foreign ports has proved to be the most efficient. A study of the free ports of Hamburg, Bremen, and Copenhagen shows that the most efficient part of the port is the free district, to which a great part of the commerce of those ports drifts.

Furthermore, the efficiency of the free districts of European ports rises not only from the excellence of ship basins, piers, and warehouses, but is a direct result of the operation of the free port principle. Port authorities agree that maximum port efficiency can be obtained only through a combined efficiency of mechanical facilities and port administration.

After the war manufacturers of this country will be endeavoring to capture new foreign markets, and therefore such manufacturers as use imported raw materials extensively would be able to locate export branch factories advantageously in the free port. This country is also to some extent an importer of foreign made products which could be advantageously assembled in a free port both for sale in customs territory and reshipment to neighboring countries. In developing such industries a free port would create an addition to the industry of this country, for the reason that a large part of such operations would otherwise take place abroad to the benefit of foreign capital and foreign labor.

Based on the above facts, we maintain that a free port should be installed because the development of a great collection and distribution center, a great international market, a center for more shipping lines, a transshipment point, and a more efficient port for the importation and exportation of merchandise would—

(1) Promote the commercial supremacy of the United States in all parts of the world.

(2) Directly benefit many of the industries of this country using foreign raw materials.

(3) Create additional industry in the United States.

The CHAIRMAN. Have you in mind foreign dutiable raw materials?

Mr. SMITH. Yes; I understand from merchants doing business in foreign ports and merchants here, that a great many customs formalities apply to nondutiable as well as dutiable goods, and that it is not the absence of duty or the absence of the particular formality which imposes a duty that restricts operations in a port, but it is the trifling delays, the annoyances, which prevent a district from becoming a free market, and it is the free market feature of the free ports, particularly at Hamburg, that make them valuable as a trade headquarters, as merchandizing places.

The CHAIRMAN. Your raw materials have to get to the other parts of the country, and at the same time they have to encounter those customary formalities, free port or no free port.

Mr. SMITH. The point is, the raw materials remain for an indefinite period frequently in the port.

* * * * *

JAMES W. REED, assistant engineer, board of estimate and apportionment, Municipal Building, New York City:

I represent in a humble way the City of New York and its administration, and my attention has been given to free zones in this way: I was led to study the conditions surrounding and governing the growth of the commerce of this port, and from that to a consideration of the general factors which enter into the growth of commerce at a port. As I listened to the discussion this morning, it seemed to me that all we can ask the United States Government to do is to lift the barriers, if such exist, and permit us to have an additional advantage in this port, which we hope you will extend to other ports of the United States, as the natural advantages or characteristics of those ports will demand.

The CHAIRMAN. That is permissive legislation that you have in mind?

Mr. REED. Yes, sir; permissive legislation.

* * * * *

Mr. ROBERT S. GUILFORD, representing the inward freight department of the International Mercantile Marine Co.

As we understand it, there would be no change in the present method of handling our ships, but a free port would do much toward relieving congestion on the piers as goods intended for the zone could be at once forwarded without loss of time through customs formalities, such as now pertain.

A free port would also tend to greatly increase transshipping, resulting in increased business to the ocean carriers serving the port and offers a large field for expansion in the developing of new trade routes, and so forth.

We feel that a properly equipped free port is to be desired.

I can only say that as carriers we are interested in anything that means prompter removal of the goods from the piers. Under the free-zone system, we believe the freight would be removed quicker from the piers.

Commissioner KENT. The question comes up as to how much of that demurrage could be lessened by reform in the present customs laws. I would like to have you state, if you can, what delays seem to be inevitable in current administration, and what would remain if an attempt were made to simplify the administration of the customs laws.

Mr. GUILFORD. Many dutiable goods are weighed on the pier, and that causes delay.

Commissioner KENT. How about sampling?

Mr. GUILFORD. Sampling cases causes delay. If the free zone were here, that would be done in the warehouse.

Commissioner KENT. Could you make an estimate of the average amount of delay that would be eliminated under the free-zone plan?

Mr. GUILFORD. I should say four or five days, at least.

Commissioner KENT. For each vessel?

Mr. GUILFORD. No; but the cargo would be cleared from the pier that much quicker.

* * * * *

Mr. FRED H. REIS, Loeb & Schoenfeld Co., 27 West Twenty-third Street, New York City.

Our concern has been importing laces, embroideries, curtains, and handkerchiefs for the last 40 years, and most of their exportations to South and Central America have been direct from Switzerland or England. Our main factories are in Switzerland. Many of our direct exports were cut off by the war.

We tried to do our exporting to New York, as a good many lines were discontinued, and many of them were lying on bond, many of which we would have liked to have disposed of. We had a good many cases where we could have disposed of our merchandise in bulk, but unfortunately we found the goods were not packed in the proper way. The duty on our merchandise in most cases in South and Central America is based on gross weight. The goods are packed in heavy boxes, with heavy packing, which is one of the reasons why we could not dispose of our goods as we would have liked. We tried to get permission from the customhouse to repack the goods, even under the supervision of the customs authorities, but the customhouse regulations did not permit the change of any package which goes into the customhouse or the rebaling or repacking of the goods in any way.

Many of our customers would request part shipments of the merchandise, which was out of the question. We have, therefore, been compelled to ship these goods from New York to the British West Indies. There we have the goods repacked, and shipped thence to South and Central America, with the permission of the customhouse.

Commissioner KENT. In other words, you have to act as if Jamaica was your final shipping point. You have to have another transshipment point besides New York?

Mr. REIS. Exactly. At the present time we have to hold all goods in bond which we can not dispose of at the present time, as the goods are not packed right. We are very much of the opinion that some practical change such as you suggest should be made, eliminating the red tape, whereby we could reship some of this merchandise.

A good many of our customers are purchasing our own goods through England, not coming here because the goods are not packed in the proper way.

Commissioner KENT. Would you have to put up special buildings for this repacking?

Mr. REIS. I would suggest the free zone. We could possibly carry our goods into the free-port warehouses, and there repack any part of the goods as the customer desired. We could then take them out without paying duty.

Commissioner KENT. In connection with your business, do any of the lines of clothing manufactured in this country use your goods?

Mr. REIS. Lots of it.

Commissioner KENT. Then, in that connection, you probably have to go through the drawback system?

Mr. REIS. There is too much trouble about the drawback system to use it. We are not manufacturers of the goods on which our goods are used.

Commissioner KENT. If you sell your lace to clothing manufacturers in New York and they export those goods, who gets the drawback?

Mr. REIS. The manufacturer gets the drawback. If the goods could be identified as having been imported into this country on a certain date, on a certain invoice, that would be all right, but there is a great deal of trouble in that, as we might resell the manufacturers in New York. The goods might come in half a dozen different shipments, which must be identified in order to get the benefit of the drawback.

Commissioner KENT. So that through the necessity of identification there are a lot of drawback losses?

Mr. REIS. Yes.

Commissioner KENT. Then, there is considerable difficulty in collecting the drawback?

Mr. REIS. Considerable difficulty.

Commissioner KENT. How about time?

Mr. REIS. Lots of loss of time. Many manufacturers prefer to lose the drawback rather than be held up by the present system.

Commissioner KENT. A free-zone system would do away with all that?

Mr. REIS. Yes.

Commissioner KENT. It has been suggested that one of the advantages of the free zone would be a permanent exhibit.

Mr. REIS. We would prefer to get samples of goods going into the free zone to show as samples.

Commissioner KENT. Do you have difficulty in the matter of having an exhibit now?

Mr. REIS. No. Sometimes you get the samples much ahead of the goods. To-day we have many goods in bonded warehouses of which we have not any samples.

Commissioner KENT. If you have goods in the bonded warehouses and you want to get the samples out to show the goods around, can't you break the package?

Mr. REIS. No; except under supervision. It would be impossible to get the customers there. We tried it once. It did not work. The goods are mixed with coffee, tea, and something else of that kind, and they do not show off to advantage.

* * * * *

Mr. SAMUEL ULLMAN, chairman of the Board of Trade of the Fur Industry, New York City.

I would like to be recorded as representing the fur industry and Board of Trade of the Fur Industry of the City of New York as being strongly in favor of the adoption of a free-zone system. You must realize that we are handicapped, and that this country has never awakened to the idea of a free port and free zone. We have never taken any real steps to accomplish anything. We have done all our work through the bonded warehouses.

Now, we can not compete with foreign countries; we can not compete successfully and hold the large amount of trade and finance which has come to us, due to the closing of the arteries of commerce by reason of the war, unless we are in position to sell what we have to sell. We must be in position to bring their products to this country and be free from molestation of customhouse regulations.

I understand some of the gentlemen here advocated the enlargement of the bonded warehouse for that purpose. That will not work. That will not accomplish the purpose.

You are, of course, undoubtedly well aware of what has been accomplished in Europe by the free ports established over there; and you are undoubtedly pretty cognizant of the fact that the free port of Hamburg has been practically the instrumentality with which Germany has created its world-wide commerce and has been able to control it.

The goods could be unloaded in a free port. You can grade and assort them and you can then deliver to the United States manufacturer what goods he desires.

That can not be done in this country or any other country where the customs is unless you have a free

port where the goods can be handled and repacked and shipped without the red tape of customs supervision. That can not be done unless we are to have those advantages. Unless we are to have those advantages, I do not see how we can expect to maintain to any degree at all the foreign commerce which has come to us, largely because they could not buy the goods in the countries where they formerly traded.

The moment the war ceases and transportation becomes restored, you must see that unless we are in position to compete, we will not hold our gain which has come to us.

I hope the Government will see the advantage of the free zone. I think it is for the Nation to consider that it is of the utmost importance for the future welfare of this country that some action be taken.

Extracts from Report of Hearing Held by the United States Tariff Commission in the Rooms of the Board of Trade, Bourse Building, Philadelphia, Pa., January 22 and 23, 1918.

* * * * *

HON. THOMAS B. SMITH, mayor of the city of Philadelphia:

The establishment of a free port means the setting aside and segregating of a large area of land either in or adjacent to the city, where imported goods intended for export may be received, stored, repacked, sorted, and blended, or manufactured and exported without the payment of tariff and with the avoidance of the cumbersome delays now prevalent, due to the present system of drawbacks.

The question of the freedom of the port, as I understand it, is altogether independent of the protection or free trade policies which begin outside of the free port and end at its gates, but that its purpose is to encourage and facilitate the handling of cargoes intended for reshipment or for distribution to other countries.

It is claimed that free ports established in other countries have had a remarkable effect in the development of commerce, and it is urged that the establishment of free ports in this country would tend to the same end. If, after hearing the views of our citizens, you agree that the creation of a free port would improve the industrial and commercial facilities for making and handling products and increase the great over-sea traffic of the country, it will then be necessary that sites be selected for the establishment of such free ports, and it is natural that the selection should be from those ports which lend themselves to the success of the project.

A free port can not be authorized and made successful if it is set down in a location lacking in the very essentials of the idea. You must place it within an established port where the foreign trade is already a dominant factor; where the harbor facilities are modern and ample; where the transportation facilities are far-reaching and satisfactory; and where the surrounding territory is contributory in resources, industrial capacity, and population. You can not establish a free port on a small stream lacking trade and facilities and without a nearby country of productiveness and hope to build up a great commercial port.

* * * * *

In the event of a free port being authorized for the city of Philadelphia, I am assured by the director of the department of wharves, docks, and ferries that his department is vested with ample authority to put the idea into effect, for under the act creating this department the director is authorized to construct such improvements as may be necessary.

I wish to assure you that this city stands ready to take a foremost part in any plan which will aid in increasing the commerce of the port and advancing its interest.

* * * * *

Commissioner KENT. Gentlemen, there is really no use in my making any long introductory statement. I think you all know what a free zone is, and I very much prefer the words "free zone" to the words "free port," because "free port" may carry with it the idea of a free city. You all know the physical requirements of a free zone; the necessary isolation, the necessary transportation facilities by land and water, and the necessary equipment.

This question, as far as the Tariff Commission is concerned, is the broadest kind of a national issue. We believe that at the close of this war, for many reasons this country will more and more look to foreign trade, and with greater justification. We have become a great creditor nation, and our debtors can not pay us in money; they will be obliged to pay us in goods. That of itself will develop interchange of goods and foreign commerce. We shall find ourselves at the end of this war with a large mercantile marine, which necessarily will tend not only to need business, but to make business. And the free zone is a mechanical device for facilitating trade. It has nothing whatever to do, as you all understand of course, with any policy of free trade, protection, tariffs for revenue, or any other fiscal policy of the Government. If the free-zone system is good for anything at all it is valuable as a mechanical device for expediting traffic, for preventing demurrage of vessels, which amounts to a tremendous expense, and demurrage of cargo in foreign trade.

If we are to go on with the idea of a vast increase in foreign trade which we have a reason to expect, I think we shall find on investigation that our existing port facilities are either inadequate or partially obsolete, or both.

The free-zone idea necessarily carries with it in most cases the idea of new construction, and new construction must also take into consideration the most modern methods of handling cargo and storing goods, the manufacturing of goods and the mixing and blending of goods.

I do not personally believe that the harbor facilities in the places that I have visited thus far are adequate, and the free zone, possibly necessitating a new construction, will carry with it as a necessary context the most modern methods and the most modern treatment.

The question that we are here to discuss with you, and to get your views upon, is whether, in your opinion, the present laws that surround bonded warehouses and the drawback system may be so altered and amended as to encourage a freer handling of cargo destined for export; or whether there is also needed a free-zone policy to be granted to those localities the commerce of which suffices and whose merchants believe that the benefits to accrue will justify a large local investment.

Mr. J. S. W. HOLTON, president Maritime Exchange, Philadelphia, Pa.:

* * * * *

I realize that if the Federal Government were to undertake to establish free ports throughout the country, and to hand them to various districts, there would be a free port in every river and creek in the country, and that it after all does come back to the section that considers itself industrially strong enough or knows itself to be industrially ambitious enough to establish its right to a free zone, provided it should be determined as a result of the investigation by this honorable commission that a free-zone system for the United States would be a national asset and be an important factor in meeting the opportunities of world-wide trade that are sure to come to the United States as a result of this war in a magnitude beyond the vision of any man who sits here at the moment.

* * * * *

Because it has been shown that the free-zone system has been an advantage to all communities where it has been put in practice, we incline to the belief, reserving the right to change our opinion if the facts justify it, that the establishment of free zones in the United States would be a valuable adjunct to the fiscal reforms that must be necessary to place the United States in a position to take advantage of these opportunities to which I have referred.

While I assume that it is not within the scope of the commission's inquiries to consider any question with regard to merchant marine, before taking my seat I want to call your attention to the fact that the building, maintenance, and operation of a merchant marine in such proportions as will restore the United States of America to the place which she formerly held as a maritime power in the world is indispensable to the utilization of a free zone or any other system of tariff privilege or accommodation; it is indispensable to the utilization of those opportunities to the extent that would at all make them justifiable. * * *

Dr. EMORY R. JOHNSON, transportation expert, University of Pennsylvania: * * * I take it that the primary purpose of a free zone is to provide a convenient and economical emporium for trade. Now, the United States as a manufacturing and exporting and importing nation in the past and up to the present has not been a large trade emporium in the sense that London has or in a minor degree Hamburg or Rotterdam. If we are to establish a free port or a free zone at our most important ports, it will be for the purpose of facilitating first of all the large transfer of traffic in those free zones. If that be our purpose, then we should inquire whether there is a prospect of our becoming in this country a trade emporium as London and Hamburg and other continental cities have become. Of course, I can not attempt to answer that question except in so far as certain facts may give indications of what the answer would be.

I had occasion some years ago to make a study of the organization of the administration of the ports of London, Hamburg, Rotterdam, and some other continental cities, and then I subsequently was charged with the duty of endeavoring to determine to what extent the commerce of the world would leave existing routes and change to a route through the Panama Canal. In connection with that investigation of the probable use

of the canal I endeavored to find out, among other things, how much of the trade that was carried on between the Atlantic seaboard of the United States, the East Indies, China, Japan, and Australasia might be expected to leave the existing routes and use the Panama Canal. I found that it was very difficult to determine the amount of tonnage first of all of cargo that was being shipped from the eastern seaboard of the United States to trans-Pacific countries for the reason that a large part of that trade left the country for London and Hamburg and other trade emporia in Europe and was there transshipped, becoming practically incorporated in the trade of Europe, and lost to the trade of the United States. The best we could do statistically was to form an intelligent estimate as to the trade between the eastern seaboard of the United States and the countries beyond the Suez Canal.

Now, that merely is an illustration of the fact that up to the present war the United States has been trading to a considerable extent with other parts of the world by way of London and Hamburg and, in a minor degree with continental cities. Is that to continue after this war is over, and for our particular purpose is it to be expected that the establishment of free zones in New York and Philadelphia and New Orleans—speaking only of the Atlantic and Gulf seaboard—would tend to change our use of the commerce emporia of Europe and make our trade with foreign countries a direct one and possibly turn the tide and cause European trade to be handled to a considerable extent by way of American ports?

Now, we are going to have very much more shipping in the future than we have had in the past. We are going to have a larger trade with South America. We are going to have a larger trade with the Orient, and we are going to carry on that trade with the Orient by way of the Panama Canal. Can we expect that Europe's trade with the Orient would be transferred in part at American ports? The facts to be considered in connection with that query are these: Our heaviest traffic movement out of the country is to Europe, so that we have a large tonnage of shipping moving in ballast, or in part cargoes, from Europe to the United States. Freight rates in normal times tend to be low from Europe to the United States. Our trade to the eastern shores of South America has been light outbound and much heavier inbound to this country. If we had convenient, economical free zones for the transfer of cargoes en route and for the necessary storage and classification of goods, I am inclined to think that with our larger trade and our increased tonnage on the ocean the cheap rates from Europe to the United States will bring to this country a considerable tonnage of European trade for the Orient.

Commissioner KENT. I am very much interested in this triangular movement. You say that the movement of trade is very much heavier from this country to Europe than it is in the opposite direction?

Dr. JOHNSON. Yes, sir.

Commissioner KENT. Does that mean that the American exports go to Hamburg and from Hamburg back to South America in a triangle?

Dr. JOHNSON. Yes; more from London to South America. That is due to what I have already said and also to the fact that Europe ships largely to South America. Trade moved from the United States to Europe in large volume and from Europe to South America. Vessels tend to pursue that triangular route, as you well know. Now, I am wondering

whether conditions are not developing that will change that.

Commissioner KENT. And keep vessels going both ways?

Dr. JOHNSON. Yes; keep vessels going both ways. That is, if Europe can transfer goods economically at New York and Philadelphia and New Orleans, goods en route to the Orient and goods en route to South America, for freight rates to South America are relatively favorable from the United States. If those conditions may be protected and we have the free zone at our Atlantic and Gulf seaboard, I am inclined to think that the former routes of trade might be appreciably changed. Now, that would have been impossible as far as the oriental trade is concerned without the Panama Canal. The opening of that trade route from the United States to the East and the consequent establishment of a considerable number of lines between New York and Philadelphia and the Orient by the Panama Canal and the economy of that route for chartered vessels gives me the grounds for thinking it probable that New York and Philadelphia and New Orleans might become important trade emporia for the commerce of Europe, both with the Orient and with South America.

Now, you have come, as Mr. Holton warned you, to the stronghold of protective tariff where the word "free" is somewhat disconcerting. Personally, that does not alarm me. I think it entirely clear that the establishment of a free zone, even in Pennsylvania, would in no wise militate against the maintenance of a protective-tariff system such as this community might care to see maintained.

As to the possibility of our developing trade emporia—

Commissioner COSTIGAN. Dr. Johnson, you speak of trade emporia. Do you mean in the sense of points of transshipment?

Dr. JOHNSON. Yes. Perhaps I do not use the word accurately, but I am thinking of London as a great emporium into which goods come from all parts of the world and from which they are taken. The question you have raised, Mr. Commissioner, is the question whether with our existing bonded warehouse system we can look forward to a large transfer of trade. Personally I do not think so. I think the expense and delay to commerce and to shipping involved in entering and clearing and going through the formalities and suffering the consequent detention would cause trade to be transferred preferably at the ports where that can be avoided.

Commissioner KENT. You think the bonded-warehouse system and the drawback system could be ameliorated so as to permit the transshipment at points to be established here? Is it theoretically possible in your opinion?

Dr. JOHNSON. I do not feel that I have sufficient information to competently answer that question. But the experience I have had in the last few months in licensing vessels to take on bunker coal and ship stores has given me some insight into the delays incident to getting a ship into a port and getting its cargo entered and getting its cargo aboard and clear.

Commissioner KENT. As I understand the coal-bunkering plan, a ship leaves New York and goes to Norfolk for coal and it has to go through the process of clearing again.

Dr. JOHNSON. They do during this war period. In peace times they have been allowed to enter Norfolk,

we will say, take on coal and sail in 24 hours without entering and clearing at the customhouse. In the interest of safeguarding the use of our ports for peaceful purposes for the present that is not possible.

Commissioner KENT. What is your particular trouble concerning ship stores? You spoke of them.

Dr. JOHNSON. I mean that it takes, as a matter of fact, in actual practice, several days to go through the process of entering and clearing a vessel. The process itself involves several days' detention of vessels and the detention of shipping is, of course, a very expensive matter. It is expensive enough, in my judgment, to cause commerce and shipping to prefer ports at which that can be avoided.

Mr. H. K. MULFORD, manufacturer of drugs and chemicals, Philadelphia, Pa.:

* * * * *

Nearly five billions of dollars of merchandise are rehandled in foreign trade each year, and in order that our merchants and manufacturers may enjoy an equal competitive basis, we must be placed at least on an equally favorable trade basis. Reexport in well-organized business must assume an important integral portion of our export trade and to foster the ease with which this reexport business can be conducted, the free movement or transfer in a free zone is essential. Therefore what are termed "free ports" or "free zones" have been established in Copenhagen, Bremen, Hamburg, Trieste. Through these free zones move a very considerable proportion of the rehandling or reshipments of raw materials.

The full advantage of these free zones can be obtained only where the country immediately contributory thereto is rich in facilities for manufacture and where the products obtained abroad may either be collected for distribution in foreign trade or may with proper safeguards be distributed to the manufacturer. We have lost our advantages of being a carrier nation through our loss of shipping, but now with the enormous increase of government-built merchant ships, we will soon be in a position, we hope, to have as large, if not the largest number of cargo carriers of any nation in the world. To enjoy fully the fruits of a large merchant marine our export business should in every way be encouraged by our National Government. * * *

The special advantages of a free zone are:

First. Unloading and loading of cargoes would be facilitated, as the necessary time consumed in examination, levying or assessing and collection of duties would be avoided.

Second. It would stimulate the number of ships, as the time saved in unloading and loading would materially shorten the length of time ships would be required in port and so increase their productive capacity.

Third. Storage would be quickened and made easier, since the cargoes could be unloaded directly from ship to the warehouse.

Fourth. Capital would be more actively engaged—i. e., be more liquid—because large sums would not be locked up in payment of duties and port charges and a large volume of business could be carried on with the same amount of invested capital.

Fifth. Commerce would be stimulated because a free zone would induce larger direct cargoes to our American ports that now go abroad and from thence be transhipped.

Sixth. It would be possible to make up for reexport what may be termed "blended" or mixed shipments.

Seventh. Exporters could carry consignment stocks without paying the duty, and the duty need only be paid when actually admitted or cleared—i. e., imported into the country.

Eighth. The more rapid and cheaper distribution of merchandise is effected into our own country or into other countries, the greater the market is built up for redistributing the goods in export from the United States.

Ninth. Freer movement of merchandise would increase our shipping and make for increasing full cargoes to be carried in inbound as well as outbound shipments.

Tenth. It must necessarily develop our ports and add to our commercial prosperity.

Eleventh. The facilities of rail connections, warehouses and, above all, the building of factories in the free port or free zone must materially lessen time of delivery of merchandise and be of material advantage to the country at large.

Twelfth. The most important reason in my judgment for the establishment of the free zone is in saving needless expenses, lessening the cost of carrying on an export business and, above all, save the expenses now necessarily incurred by the cumbersome drawback system.

While the system of drawbacks under which we are now favored is an incentive to the manufacturer to export his products, the necessary "red tape"—and I do not speak disparagingly of this—locks up for a long time, frequently 10 or 12 months, capital that would be profitably engaged in actual business transactions. The expense now involved in securing drawbacks represents a considerable amount of profit, and the saving would enable the American exporter or manufacturer to secure more favorable returns from his business endeavors.

The free zone simplifies and makes it easier for the merchant to conduct his business, will develop our industries and add to the general prosperity of the Nation.

* * * * *

Commissioner KENT. Is it your opinion that the drawback system is necessarily and inherently cumbersome?

Mr. MULFORD. It certainly is and I want to speak of that.

Commissioner KENT. The reason I speak of that is that in the questionnaires we have sent out we have had a number of replies to the effect that the trouble with the drawback system was in the men who rendered the service; that it might be shortened. Now, we want to know just what happens.

Mr. MULFORD. That is what I am trying to bring out. What is necessary now in order to secure a drawback? First, you must apply for a Treasury decision so you may be allowed to make a claim for drawback. That means inspectors coming to your plant to see if you are hitched to do that kind of business. In other words, they are going to judge whether you shall or shall not engage in export trade. Second, you give notice of your intention, which notice must accompany the shipment to the pier. Third, you give a copy of your bill of lading or customhouse copy, which must be signed by the steamship company showing the goods that were actually cleared.

That is very necessary. Then you make out your schedule and then this goes through the routing office in New York, which either approves or disapproves payment of the drawback and figures the amount to be paid. Any slight deviation that may be made in your invoice or in your claim for drawback may be sufficient to throw out your claim, and when you have quoted a price figured on securing a drawback so that you can compete with your foreign competitor, he has an advantage of the free zone. If you have made a slip you are penalized and you lose your profit and you do business at a loss instead of a profit.

What we complain about most seriously, however, is that after you do have your claim entered properly and it has been properly viséed and passed on by the Treasury Department, there is delay in getting your money. It is not infrequent for from 6 to 10 months to be consumed before the drawback reaches the man who is entitled to it. That is an absolute injustice. The loss of that amount of capital makes it impossible for any except large firms to compete in export trade, and the very man you want to help, the smaller manufacturer, is precluded from doing business. We hope the small manufacturer under the new change of our law is going to be able to combine for export trade. What we would like to see done, gentlemen, so far as the drawback system is concerned, and we can not get the free zone, is to cut out the technicality in settlement after the claims have been liquidated. In other words, let the Treasury Department return promptly the money which the exporter is entitled to receive.

Now, what I am claiming is this, gentlemen of the commission; that any law or any form of procedure that makes it necessary for a business man to secure expert advice in order to get his own money back is wrong and ought to be repealed or modified. It is to be understood that the statements made by me concerning the time required in securing moneys from drawbacks apply particularly to the alcohol which is used as a solvent in the manufacture of drugs, pharmaceuticals, and chemicals. * * *

Mr. W. O. HEMPSTEAD, of O. G. Hempstead & Son, customs brokers, Philadelphia, Pa.:

* * * * *

My understanding of a free port is a combination of warehouses and plants for the manufacture of merchandise from imported and domestic materials. The former would be in demand for storage purposes, for no other reason than the matter of storages, which undoubtedly would be in favor of importers over the rates charged for similar service by warehousemen located in heavily congested parts of large cities; while the latter would offer very cheap acreages for the establishment of manufacturing plants that desire to manufacture merchandise partly from domestic and partly from imported materials, for either foreign or home trades.

Commissioner KENT. You consider the manufacturing part of a free port as very important, do you?

Mr. HEMPSTEAD. For new lines of business depending on foreign trade, I think the newly established firms will seek the acreage offered by the free zone to put up their plants. You could not expect manufacturers that are exporting goods to-day with the benefit of drawbacks to move their plants or to build new plants where they have them, because the present

drawback law allows the return of 99 per cent of the duty paid on the imported article.

Commissioner COSTIGAN. There would be no particular manufacturing for domestic consumption, would there, in your free port? I mean under a system of protective tariff duty.

Mr. HEMPSTEAD. I am not so clear on that. I think you would find factories locating in the free zone. They should not be excluded, in my judgment. I looked at it from the angle that the factories could be located in a free zone with ample railroad facilities and connections as cheaply as in any other part of the surrounding city. I am speaking now from the Philadelphia standpoint.

Commissioner KENT. Would they go there with the idea of manufacturing for customs territory?

Mr. HEMPSTEAD. Not unless they were interested in the manufacture of goods with the benefit of the drawback.

Commissioner COSTIGAN. It would be for foreign trade?

Mr. HEMPSTEAD. It would be for foreign trade, but coupled with that some firms would make withdrawals of goods manufactured there for home consumption and pay the duties. I have recommendations on that point which I want the commission to take notice of. * * *

In connection with the establishment of free ports, I desire to suggest to your commission that you recommend to Congress, in case it should pass a law authorizing free ports—

First. All merchandise deposited in free-port warehouses should be accorded the same rights as if just landed from a foreign steamer.

Second. It be optional with the importer to either make what is known as a consumption entry at the customhouse, or to be allowed to forward his merchandise in bond under the provision of the immediate-transportation act to any interior customhouse.

Third. That the date to be fixed for valuation and classification purposes should be the date the importer applies to the collector of customs in whose district the free port is located for his property, whether for consumption or immediate transportation without appraisement.

Fourth. That the importer be relieved from furnishing a consular invoice for all or any portion of an importation that has taken advantage of the free-port privileges.

In connection with your drawback interrogatories I can only say, as far as my own experience is concerned, that I do not consider there is any cause for change or modification in our present drawback system, except in one particular. I wish your commission in dealing with the question would recommend to Congress to do away with the production of certificates of landing at foreign ports from United States consuls.

I would further ask that your commission recommend to Congress the 30-day feature in the drawback law be eliminated and authority be given to collectors of customs to make payment of drawback moneys upon the final completion of drawback entries by the exporter and the return by the custom inspector that he has personally inspected the loading in the outgoing vessel of all the merchandise covered by the drawback entry. * * *

Mr. MULFORD. Mr. Chairman, Mr. Hempstead said he differed from me in one particular about asking

for a change in the drawback system. Do you make a claim, Mr. Hempstead, for drawback on goods which you manufacture yourself?

Mr. HEMPSTEAD. No, sir.

Mr. MULFORD. You act as an agent?

Mr. HEMPSTEAD. Yes, sir.

Mr. MULFORD. Then, I say, Mr. Chairman, that his objection comes from a different viewpoint. The system, as he works it out, now gives him business. As it works out with us, a commission has to be paid by a man to get his own money back. That is why we differ.

Mr. HEMPSTEAD. I take exception to the remark that it is necessary for any manufacturer to employ an agent to recover his drawback for him. He selects one merely for his own convenience; that is all; and the one whom he selects makes a charge. But at the outset I understood the gentleman to say that it was necessary to have an application made to the Secretary of the Treasury for permission to export goods for the benefit of drawback. The regulations are like this: You form an idea of selling goods abroad made partially of imported material. You may arrange your steamship matters and are going to ship next week. You may file with the collector of customs a preliminary notice to this effect and ask the collector to make due examination. You also write to the Secretary of the Treasury asking the Secretary to make an examination through his various channels for the purpose of fixing a drawback rating. Now, when that drawback rating is established and shipments are made and the exporters have their papers in thorough condition, there is no need to wait six months or eight months or nine months for the collection of the drawback. Especially has that been so since the beginning of the war. Prior to that, owing to a great congestion of business, perhaps, it was two or three months in some instances where the drawback duties were delayed in the payment. And you see I make the suggestion here of doing away with the first 30 days. No one can collect a penny of drawback until after the first 30 days as the law now stands. But there is no reason why it could not be paid to-day, just as soon as you get your papers in shape and the customhouse officer says he has seen those goods put in the hold of the vessel.

Mr. MULFORD. My good friend is probably speaking of general merchandise. I am speaking of specific merchandise or goods with which we deal in our business, such as alcohol. We are collecting, now, drawbacks for 1916 shipments, and I defy anyone to get what is coming to him if he does not employ the services of some one who is skilled in getting these drawbacks. I think you will find that we have as competent brains as are to be found in ordinary establishments, and I must confess that we have not been able to do it, and we have tried.

* * * * *

Mr. E. J. LAVINO, importer of ores, Philadelphia, Pa. The average cost for collecting the drawback, taking all the merchandise exported for the benefit of the drawback into consideration, is not 5 per cent. It perhaps does not average 3 per cent. That is largely reduced by such commodities as sugar and in prewar times tin plate.

Commissioner KENT. What would be the average outside of sugar?

Mr. LAVINO. Outside of oil and sugar it would not be 10 per cent.

Mr. HARRY B. FRENCH, of Smith, Kline & French, manufacturers of drugs and chemicals, Philadelphia, Pa.:

The Chairman, I am here representing the drug exchange. I would like to know whether this is a discussion of the general fiscal policy of the Government or a discussion in regard to the establishment of free zones.

Commissioner KENT. It is a discussion, Mr. French, not of the general fiscal policy of the Government, but a discussion of the necessary routine of the export business, and whether that routine would be simplified by a free zone and whether the routine of drawbacks and bonded warehouses could be beneficially simplified. It concerns the mechanical means of expediting foreign trade.

Mr. FRENCH. There are so many experts here in the intricacies of exporting and importing under the present circumstances that I can not add anything to the subject, except one remark that is called for by listening to the discussion that has gone on.

Mr. Hempstead is our broker, but when it comes to recovering money from the Government it is a hold-up. I want to say emphatically that when we try to get money out of the Government I have never known that we have done it for less than 50 per cent of the amount recovered. Again and again I have remonstrated, but without success.

I am here merely presenting facts to you for your future consideration. My impression was that this was solely a meeting for the discussion of the establishment of free zones. I understand now that is only a part of the discussion as to the methods to increase the facilities for import and export; but I would like to say just a few words on this subject.

* * * We merchants in Philadelphia can buy to better advantage goods in Africa and ship from Europe than we can direct. Therefore, in any discussion of a free zone you must bear in mind that a free zone on the basis of the free zone of Hamburg is only efficacious when backed by governmental action in the way of a supply of a merchant marine power to stimulate the operations of this country. Otherwise the operation of a free zone on an important basis, I respectfully submit, is of very small advantage.

One way of looking at the free zone is a little affair where there is a small area established, possibly two bonded warehouses, where people are permitted to export goods without examination, and perhaps under certain conditions take goods out of this country into those bonded warehouses and mix them up and ship them.

The other advantage is a so-called advantage of which Mr. Mulford, whom I regard as an expert in that particular, may have spoken to you. It is the export of our own products. Everybody who tries to export products partially made with imported goods knows the practically insurmountable difficulties. Every man who does that is naturally looked upon by the customs officials of America as a rascal who is trying to cheat the Government. The process of exporting is very difficult. I tried it one time, and if I did it I would have to give the history of the production of that product from its inception. What business of the customhouse official is that? They wanted to know its history and its grandfather—everything about it.

Now, there is a greater advantage in the establishment of a free zone. In the establishment of a free

zone, which implies a segregation of thousands of acres of land approached by waterways and shut off from all communication with the rest of the world, surrounded, like Hamburg, with a high iron fence, where water power can be obtained cheaply and where vast manufacturing establishments can be set up. If you correct the difficulties of exporting goods containing foreign products, you really have no excuse for a free zone, because you have everything that you can get except this latter possibility, but that latter possibility opens indefinite future possibilities.

I know of a manufacturing pharmaceutical house that has establishments, not only a vast one here, but one in Canada, one in Hamburg, one in Melbourne, one in England, and others in various other countries of the world. It is easily conceivable that houses like that, if they could establish a manufacturing plant in a free zone, such as here mentioned, would concentrate their manufacturing there, because it would be cheaper for them to manufacture their product in one establishment under such circumstances than it would be to establish all these various independent manufacturing plants.

Gentlemen, in closing I would urge one thing, and that is that if any free zone is given and attached to the municipality it be done at the cost of that municipality. Otherwise, you open a pork barrel of indefinite dimensions. You will have exactly the same conditions as prevailed in the rivers and harbors bill.

* * * * *

Mr. PHILIP GODLEY, Godley Stores, Bonded Warehouses, Philadelphia, Pa.:

* * * * *

Commissioner COSTIGAN: Mr. Godley, as a warehouseman do you see any danger that free ports will impair your existing investments?

Mr. GODLEY. No, sir; I do not see any serious danger of that. As I said, I think there is bound to be sufficient local business within the confines of the city district itself, bearing in mind that any such facilities for a free port have got to be some distance from the city limits, which, of course, should be closely connected up with the best of transportation facilities, and any free port should be a practical railroad terminal as well as a wharf and dock terminal for the ships.

Commissioner COSTIGAN: So on the whole you look with favor on the establishment of free ports?

Mr. GODLEY: Yes, sir; as a general proposition I think it would be a good thing, at least for Congress to give the people the privilege and the opportunity to avail themselves of the chance of establishing free ports, if the merchants of a locality like Philadelphia, for instance, should conceive that they could build up a business sufficiently large for their making the investment. I should oppose strongly the Federal Government making any appropriations for the establishment for any section of the country. I think that would be a vast mistake. It should be done by the State or the municipality, or the two together, if private capital does not feel sufficiently encouraged to make the investment.

* * * * *

Mr. EMIL P. ALBRECHT, president Philadelphia Bourse, Philadelphia, Pa.:

* * * * *

I believe most firmly in the advantages to be derived from the establishment of free zones in our ports for the upbuilding of the foreign trade of our country in the years to come following the present war.

It means that that tonnage must be utilized in the foreign trade after the war and incidentally some method must be found whereby that tonnage can be utilized on a parity with the tonnage of other nations which are being operated at much lower costs and it is true without the same advantages to their seamen that we have under the American flag.

* * * If we have the facilities for properly and expeditiously handling them there is no reason why the vast quantities of raw materials which heretofore have gone to ports of Germany and England to be transshipped in part to the United States should not come directly to us and we then serve Europe with that portion which we do not require.

Mr. L. G. GRAFF, president, Commercial Exchange, Philadelphia, Pa.

Mr. Chairman, I have very little testimony to give. Representing the Commercial Exchange, I might state that the grain and flour are produced in such quantities in the United States that we become the handlers of an export commodity. We, however, are indirectly and vitally interested in getting as much tonnage to the port of Philadelphia as we can possibly obtain. We are also interested in keeping liquid the inbound tonnage as well as the outbound tonnage. If the vessels in unloading their inbound cargoes can do so quickly it will help us to get vessels to this port. I believe that the proposed zone will expedite both the loading and the unloading of outbound vessels.

Commissioner KENT. You would expect to take domestic outgoing cargo and put it in the free zone where it would meet vessels that come in and unload quickly their imported stuff and then ship out on them?

Mr. GRAFF. We would expect to export grain and flour produced in the United States naturally on the vessels bringing in the cargo for the free zone. It might be necessary, and undoubtedly would be necessary in most cases, to move the vessel, but that would be a small matter. Grain must be loaded where the elevators are constructed or else floated to the regular line boats. If the inbound cargo at our free zone happened to be a line boat and could not be moved to the elevator, the grain could be floated to that vessel while she is unloading.

Commissioner KENT. Would you not anticipate putting up an elevator in the free zone?

Mr. GRAFF. That is a thought that had not occurred to me, Mr. Chairman. The railroads might see fit to do so, or the Government.

Commissioner KENT. Or the free-zone authorities.

Mr. GRAFF. Or the free zone authorities; yes, sir. I hardly know of anything else that I can give you from the standpoint of grain and flour.

Commissioner KENT. Your general plea for free zone ideas would be one of generally expediting commerce?

Mr. GRAFF. Yes, sir; expediting and bringing additional tonnage to the port of Philadelphia.

Commissioner KENT. And you think the free zone would tend to bring the commerce here?

Mr. GRAFF. I believe it would, undoubtedly.

Commissioner KENT. If you could do away with demurrage you would, in your opinion, get two advan-

tages; increase of efficiency in expediting vessels and such facilities that would tend to bring more vessels?

Mr. GRAFF. Yes, sir.

* * * * *

Mr. ALBRECHT. Mr. Chairman, may I ask a question with regard to bonded warehouses? Is it not true that we have at present in certain industries, like the cigar industry at Tampa, a number of bonded warehouses where manufacturing is carried on with success, and where the policing must be done by means of one or more inspectors or watchmen to provide for that?

Commissioner KENT. Yes; we have it in cigars, Mexican peas, and smelter output.

Mr. ALBRECHT. And we have bonded distillers, have we not?

Commissioner KENT. No; that is under the bonded warehouse law.

Mr. Taylor, just before you came in we were taking up the question of exclusion of non-German shipping from Hamburg. I have read the Hamburg book which I have here and I found a very large percentage of English tonnage in Hamburg. We would like to know more about the detail of that. Is that the customs port of Hamburg or the free zone of Hamburg? Are foreign ships treated alike in both cases?

Mr. FRED. W. TAYLOR, of Philadelphia, Pa. They do not allow any regular liner, a line with regular sailings, from this country to the port of Hamburg or Bremerhaven. It is not possible for any capital to enlist boats outside of their control. That is a monopoly controlled by the German Government through their lines.

Commissioner KENT. Could an American tramp boat go into Hamburg?

Mr. TAYLOR. The tramp boat could go there. They use tramps largely. Their lines run between regular ports on regular dates. Those boats are not interfered with, but any excess cargo of grain from the United States to Hamburg or Bremerhaven would be taken on a tramp boat of any nationality. But no regular boat with sailing dates was advertised to those ports. That is the reason why it made such great growth in international trade. They had equal rights at South Dover with English lines. Then they went on with the balance of their German passengers and all of that was so much to the good. That was one reason why they had so much growth in the passenger trade in competition.

I once asked an Englishman in the passenger line why they allowed that. He shrugged his shoulders and said, "Well, you know it is our English way." They went farther down in Trieste, where the Cunard Line attempted to open up a traffic between there and this country. The Germans went so far as to prevent that passenger traffic going through Trieste, through their political control.

Commissioner KENT. Through Austria?

Mr. TAYLOR. Yes. They also controlled and dominated the political policy of the Italians through their premier. They were studying out this thing with Government control back of them, and that is the entire secret of their great success.

* * * * *

Mr. J. S. C. HARVEY, representing John R. Evans & Co., Philadelphia, Pa.:

* * * * *

It seems to me that considering the free port or free zone proposition our first consideration should be as to what portion or share of the business of South American countries and other countries which are very large importers we expect to participate in.

We all realize, I think, that there is to be a grand reconstruction, and I think some of our fondest hopes probably are in favor of getting a fair share of business that has heretofore gone to Germany. That is true in our case. I have not paid so much attention to other lines of business.

Commissioner KENT. The transshipment question is the one that has occurred to our commission as really the main feature. From all of our hearings we realize that the questions of manufacturing is relatively local. The questions of transshipment, of expediting the movement of vessels, and the movement of cargo, seems extremely essential; and the question as to whether that could be better done, all things considered, by amelioration of the existing system or by establishing a free zone system is the important thing. We find such a difference of opinion concerning manufacturing that it really can be well cut out of present consideration.

Mr. TAYLOR. No regular line will leave its berth to discharge in that free zone. You might have certain parcels for the free zone. She could not afford to lose her sailing date.

Commissioner KENT. Grace & Co. in San Francisco testified that their freight vessels would go direct to the free zone. If they had a freight cargo that was largely free and partly dutiable, they stated that they would go right to the free zone. They would have their docks there and would make their sailing dates there.

Mr. TAYLOR. I am speaking now of movements by regular lines. Say there is 500 or 1,000 tons by the Liverpool line. That boat will go to her own dock because she must discharge and get that all out. That particular parcel for the free zone would have to go by bonded lighter in some form to the free zone. The boat itself would not go to the free zone.

Mr. HARVEY. Might not the establishment of the free zone change that, Mr. Taylor?

Mr. TAYLOR. Not the regular line. No regular line could afford to take the time.

Mr. HARVEY. I mean make only the one stop and make that at the free zone.

Mr. TAYLOR. They could not do it. That would require those goods to be taken out first.

Commissioner KENT. They take everything out in the free zone.

Mr. HARVEY. Could not they discharge out in the free zone?

Mr. TAYLOR. Owing to the cost of hauling the regular line is going to get as near to the center of industrial activity as possible, and for that reason no regular line could be depended upon for free zone delivery directly.

Mr. GEORGE P. SPROULE, secretary to the commissioners of navigation, Philadelphia, Pa.:

To any particular locality where the free port or free zone may be established it means the taking away

of nothing that now exists nor will it disturb any of the existing conditions. The effect can only be additional business. It means that the immense tonnage now being built up for our mercantile marine after the war will find ready, constant, and profitable employment in the foreign trade. It means that our merchants having to do with ships and commerce will be placed in positions that will enable them to extend their business throughout the world.

In the period antedating the war it was realized only too well by practical shipping men how little money was left here by foreign-owned ships which then controlled the foreign trade, our own mercantile marine being a negligible quantity. These ships came here furnished with supplies taken out of bond in Europe, or from the free zones, sufficient for the round trip, and not a few of them were even bunkered for the return trip. The only necessities purchased here were fresh meats and vegetables.

With the free port or free zone established, our ship chandlers, ship smiths, ship repairers, and in fact all mechanics having to do with ships or their cargoes, would be placed in a position to secure a great volume of business that is now taken to foreign ports by reason of the inadequacy of our laws. This concrete illustration of our present state of helplessness, small as it may seem, is only indicative of the principles underlying every phase of marine business of American ports. Among instances too numerous to cite in full are those of foreign vessels coming here in distress, postponing the making of permanent repairs until such time as they reach the other side. In this way millions of dollars are lost annually to the country.

The free port or free zone system, including within its scope shipyards, dry docks, and repair shops provided with the necessary duty-free accessories, would remedy this condition and give constant and profitable employment to our mechanics and other tradesmen. The trade that would be built up between the United States and South America would result in inestimable benefit to our country.

Merchants with large amounts of capital tied up in duties awaiting the adjustment of drawback claims, never satisfactory and often attended with legal formalities, requiring the expenditure of from 30 to 50 per cent of the duties originally paid, could utilize this capital in the branching out of business.

The benefits such as accrued in the ports of Europe, where the free port or free zone has been established, would likewise follow here, and our commerce, approximating some 20,000,000 gross tons per annum, would soon be doubled.

The director of the department of wharves, docks, and ferries, under whose directions these improvements are being prosecuted, is of the opinion that he is clothed with authority under the acts of assembly creating his department to acquire property to build, equip, and maintain a free port or free zone should Congress enact the necessary enabling legislation. No city in the world possesses a better or more capable body of merchants than Philadelphia, and if Congress in its wisdom will give to them this added tool for commerce, I predict that the whole nation will be benefited.

Mr. MORRIS ROSENBAUM, private banker, Philadelphia, Pa.:

* * * * *

Having a free port in which docking facilities and warehouses equipped with electric cranes for rapid handling of cargoes, both in and out bound, are available would enable not only the American merchant to make the port a distributing center for products of the Far East, South America, and parts of continental Europe but would also attract the merchant to warehouse in the free port such of his goods as coffee, rubber, tea, Chile saltpeter, guano, silk, dyewoods, cocoa, hemp, hides, sugar, etc., until such time as the market in one of the other countries will offer advantages for reexportation.

The American manufacturer will be in a position to have a vast variety and quantity of products from which to purchase quickly with no delay in delivery. This means that the capital employed can be turned more frequently, which insures steady employment to mechanics and laborers and also quick delivery to the oversea trade.

Cost of construction and land.—Three hundred acres of land at \$3,000 per acre = \$900,000.

Construction of 5 basins, 1,000 feet wide and 2,000 feet long, with concrete quays 300 feet wide, covered with sheds, equipped with electric hoisting device at each 100 feet on both sides; two traveling cranes on the inside and double track railroad in the center.

One basin, same size as above, similar quay construction, so arranged that potash, saltpeter, guano, or cement may be loaded or unloaded into or from ships directly into railway cars standing on tracks alongside of the ship. One basin same size as above with quay which shall be equipped to handle dyewood, logwood, and lumber of general character, to and from the vessel into railway cars or lighters.

One basin, same size as above, with quay which shall be equipped to handle lubricating oils, naval stores, etc. Depth of basin shall be 35 feet. Belt line railway to connect three railroads with each quay with railroad yard facilities to accommodate 2,000 railway cars, all to be handled by electric motive power. Administrative building equipped with most modern office and pneumatic transfer devices so as to reach every part of quays and warehouses. Cost to be approximately \$20,000,000.

Charges.—To cover dredging expenses to maintain the basins of the free port deep and clear; all sea ships above 1,000 tonnage shall pay 10 cents per net register ton except vessels with cargo of bulk goods such as coal, cement, etc., or vessels arriving in ballast and departing with cargo shall pay only 5 cents per net register ton and vessels arriving and departing in ballast shall be exempt from tonnage duties.

Warehousing charges.—General merchandise, 25 cents per month or fraction of one month and 10 cents for each additional month. Coffee in bags, 10 cents per bag for one month or fraction thereof and 5 cents for each additional month. Dye and log woods, \$1 per ton for one month or fraction thereof and 50 cents per ton for each additional month. Saltpeter and guano in bulk, \$1 per ton for first month or fraction thereof and 25 cents for each additional month.

Port expenses.—Covering tonnage dues, towage in and out, pilotage in and out, incidental expenses, should not exceed 25 cents per net ton.

* * * * *

Mr. HEMPSTEAD. I would like to ask Mr. Rosenbaum if he has not misstated the situation regarding the make-up of manifests on arriving vessels, assuming that we have a free port. He suggested that the manifest be made out, one portion of the manifest for goods intended to be landed in the free zone and one portion to be landed at the regular dock. That would be quite impossible to my mind. It would compel the merchant to decide before his goods were shipped from the other side whether he was going to take advantage of the free port.

Commissioner KENT. Would that be much of a hardship?

Mr. HEMPSTEAD. Quite so. I think the merchant should have the right to nominate whether he will put the goods in free storage after the arrival of the vessel and not before it left the free port.

Mr. ROSENBAUM. For the quick handling of cargoes it would cause no hardship on any shipper to make out his bill of lading on one form or another, but it would facilitate the work of the port authorities in the handling of goods properly and quickly. He can so arrange his cargo that when the ship comes in he can discharge either at the city pier or at the free port. There would be no hardships on that account.

* * * * *

Mr. TUCKER. I would like to inquire of Mr. Rosenbaum if he suggests a charge to be made against tonnage arriving for the use of the free zone.

Mr. ROSENBAUM. This has nothing to do with the free zone. This is simply an expense to the ship. The reason I mention that is this: If a man wishes to ship a cargo to the free port of Philadelphia, he should know what those charges will be when he charters the ship.

Mr. TUCKER. I thought you were speaking about a charge that might be made by the local authorities upon a ship in the shape of a tonnage charge. My understanding is that that would be out of keeping with the provisions of the Constitution; that different sections could not make a charge on tonnage.

Commissioner KENT. The charge and collection of tonnage tax upon vessels, as such, is only permitted to be made by the Government. No port may levy or collect such a tax. It would be an interference with commerce and imports. Ports, however, are permitted to make charges, based upon the tonnage of vessels, for the use by such vessels of the port facilities. Excuse me just a moment, Mr. Tucker. I think we can fairly assume that the customs port authority is one thing, but a free zone in that port is another thing. It is practically an extension of the bonded-warehouse idea. If there are any discriminations used as between charges up to the free zone, I can see where your constitutional question might come in, but you must consider the free zone in the nature of an extension of the private property of a bonded warehouse. * * *

Mr. ALBRECHT. The vessels arriving at the port would not be compelled to go to the free zone. They would go there voluntarily. And if they go there to accept such facilities as may be offered, they are doing it entirely aside from the port regulations. It would not be a charge for their entering and using the port, but only for special facilities provided, of which they might take advantage or might not.

Commissioner KENT. Mr. Rosenbaum, there is one thought you brought out there that seems to have been extremely important in Hamburg and Copenhagen, and that was the greater financial facilities

offered in the free port than are offered outside. The outside business under our warehouse system is more scattered. In Copenhagen they insisted upon having banking arrangements in the free zone that were superior to those outside.

Mr. ROSENBAUM. Exactly. Mr. Chairman, I may say that there was a great deal of thought given to the future of the American commerce. Our banking facilities, unfortunately, were very, very poor, but they have been very much improved within the past few years by the establishment of the Federal reserve banks. It allowed the American manufacturer to compete with the German merchant in South America by selling goods under the same terms. It has been found that the Federal reserve bank system would not suffice for the great commerce of the United States which is to come, and preparations have been made to meet the difficulties. I am glad to say that one of our largest Philadelphia institutions is a member of it.

The foreign merchant will find that when a free port is established in Philadelphia he can send his goods over here; he will get his warehouse certificate; he can secure some money if he needs any; and he can sell his goods to South America or England or Canada.

* * *
Mr. N. T. FOLWELL, importer, exporter, and manufacturer, Philadelphia, Pa.:
* * * * *

I would like to indorse the testimony of Mr. Mulford, which calls special attention to the inconvenience of the present drawback system. That was fully explained to you yesterday, and I concur in that explanation.

Commissioner KENT. How much do you think that could be improved and at the same time protect the revenues of the Government?

Mr. FOLWELL. I do not know how you are going to improve very much, because the raw materials are coming in here free. They have to be watched in every process and a full detailed account made of the goods that the materials enter into. Then again, there are some goods that raw materials would be blended with. It would give considerable trouble. That is one reason why I think that the drawback system has not been utilized like it might have been.

* * * * *
While the free port is desirable to manufacture, import, and assemble goods to export to the countries south of us, I consider one of the most important questions is the laws relating to our merchant marine. This is sort of going a little off from your regular line, but I wanted to impress this point upon you, because in your recommendations to Congress no doubt what you have to say will have a great deal of weight. Prior to entering the war our vessels on the Pacific were being transferred to other countries, as the owners claimed that they could not run them under our laws at a profit. This is all true, and no doubt you are fully aware of it. After the war it will be up to Congress to pass laws which will enable owners of the large number of merchant ships now being built to operate them at a profit.

Prior to the War of 1812 the Stars and Stripes flew in every port of the world. We see no reason why after this war this should not again be the case.

* * * * *

Commissioner KENT. From what you have stated you would consider the free zone a device that would aid in reestablishing the merchant marine?

Mr. FOLWELL. It would be a decided factor, but it is so coupled with the shipping facilities. Of course, our ships would have either to go to decay or be transferred to other countries. I think it is a very important question for you to bring up before Congress in your recommendations. Something should be done to our navigation laws to permit our own vessels to run here at a profit.

Commissioner KENT. Do you not think it is important that our own people should also go on those vessels as sailors?

Mr. FOLWELL. Certainly. I would keep up the wages. That is one reason why the manufacturers in Philadelphia are in favor of high tariff. It allows us to pay the extreme wages that are prevailing in this country and still compete with the world. * * *

Mr. E. D. ZELLER, representing the Growers' and Importers' Exchange, Philadelphia, Pa.

* * * * *

In the first place, we are all agreed that the bonded warehouse system has proven an advantage to our country and should be continued. I think we can be agreed that the system by which our domestic manufacturers have been fostered in the matter of ability to do some foreign trade as developed under the drawback system has been of advantage. I think this drawback system by a more flexible arrangement can be made of even greater advantage.

Commissioner COSTIGAN. Have you any suggestion along that line, as to amendment of our drawback laws or regulations?

Mr. ZELLER. Amendment to the drawback regulations should be along the lines that there shall be less difficulty in the formalities that are to be observed, always with a proper regard for the protection of the revenue.

I speak as a believer in the drawback system for our foreign trade. Many of us encounter these difficulties. For instance, I might speak from my own business experience with regard to sugar. I have been for some thirty-odd years in the sugar-refining business. As you know, sugar is one of the most important articles of import in the city of Philadelphia, due to the advantageous location of Philadelphia as a sugar-refining city, favorable shipping facilities, fresh water, proximity to coal, and available water; and we have always done a very considerable export business. With the very considerable tariff that exists on sugar in the export business very large sums were sometimes tied up, often running up as high as half a million dollars. Of course, the costs in carrying are very considerable with regard to that particular item.

Commissioner KENT. How long does it take to get that drawback?

Mr. ZELLER. The operation of the present method is for the refiner to work in periods of time, sometimes two weeks, sometimes a month, and it involves the liquidation of all of the import entries before the refinery abstract involving the manufacturing particulars can be liquidated. As you know, the matter of appraisal, the matter of weighing, and all the details of importation move somewhat slowly through the customs procedure, and it sometimes happens that

there is a very considerable delay. One particular cargo that might be held up for some reason by the Government would prevent the liquidation of this abstract in a reasonable time.

Commissioner KENT. Can you liquidate and get your drawback prior to the arrival of the cargo in a foreign port, or do you have to wait for landing receipts or returns?

Mr. ZELLER. No; a bond can be given. If your abstract is liquidated and your export entries are liquidated, you can collect your drawback within 30 days after the clearance of the exporting vessel by giving bond for the production of the landing certificate.

Commissioner KENT. How long does that bond have to run?

Mr. ZELLER. That bond might be for a hundred or a hundred and fifty thousand dollars.

Commissioner KENT. How long would it run before that bond is canceled?

Mr. ZELLER. That bond runs for about a year's period, and then you have to produce your landing certificate.

Commissioner KENT. Who furnishes those bonds, the bonding companies?

Mr. ZELLER. The bonding companies will furnish them; yes, sir.

Commissioner KENT. Is that customary?

Mr. ZELLER. It is customary in the larger business for the bonding companies to provide it. Of course, that entails an expense that seems to be altogether unnecessary in a way because the completion of the full facts are carefully ascertained. The bill of lading for instance is issued for the volume exported and it is generally under an inspection by officers.

Commissioner KENT. Why should it not be conclusive in the case of a tonnage of sugar that has gone into export on a ship that has left the port? Why should you have to wait for any verification?

Mr. ZELLER. I think that is merely an inherited system. It is conclusive as far as the merchandise is concerned.

Commissioner KENT. It could not put into another American port without entering the vessel?

Mr. ZELLER. No, sir.

Commissioner KENT. Then, do you see any sense at all in waiting for a landing certificate from the foreign country before your bond is canceled?

Mr. ZELLER. I do not see that the landing certificate is anything more than a formality that has been inherited, and it is one of those things that causes a great deal of annoyance at times.

* * * * *

Mr. ALBRECHT. I would like to ask what is the practice in these times with respect to cargoes which by reason of the activity of the submarines are sunk and not landed at all. Is there any drawback to be obtained under those circumstances when certainly no landing certificate is furnished, nor could after a short time any evidence be found of the cargoes?

Commissioner KETT. And would the bond ever be canceled?

Mr. ZELLER. We have had one or two instances of total loss of cargo where the facts were submitted, and we had evidence from the English Government that such a vessel had disappeared and, of course, the Secretary of the Treasury on these representations has canceled the bond.

* * * * *

Commissioner COSTIGAN. How much money of the company you represent is tied up on the average under the drawback system?

Mr. ZELLER. Well, I made a collection at the close of the year of \$493,000. I think we were probably 60 days after the clearance of the ship—in some cases more than 60 days—an average of from 45 to 60 days in recovering that drawback.

The operation also is peculiar in that under the sugar system certain ports have been delegated as quite competent to liquidate the refining abstracts, for instance, of the manufacturer and all of the important details, Philadelphia not being one of those selected ports for the liquidation of abstract. All of those details in the importation are prescribed and sent to the port of New York and then in due course in the ordinary movement of rotation they are liquidated by the port of New York and then sent back to the port of Philadelphia. When that information is received our customs authorities then have the facts upon which they can proceed with the liquidation of the export entries from the port of Philadelphia. It seems to me a very roundabout proposition and altogether unnecessary.

* * * * *

I think we have to look at it a little more broadly than from a purely local standpoint. I have been in the port of Hamburg and I have observed the development there. It seems to me that a free port will be of great advantage to any city, or municipality, if you will, in which it is located. Not only will it be of advantage to the mere local surroundings, but it will be an advantage to the hinterland to which possibly a great deal of the merchandise flows. Those who have been in Hamburg have noticed those square-riggers. They were in the East and West African trade. They would gather up from the different ports along there all sorts of merchandise and replace it for distribution in the port of Hamburg. The available service of cheaper lines out of Hamburg would distribute that collected merchandise and mean a great advantage in its movement.

Further than that, in Hamburg there are a great many merchants. Now, why is that? It is because the facilities for the handling of merchandise have thrown into that location great mercantile houses. I think that is one of the things in which we are woefully lacking in this country. The establishment of more of an international exchange of commodities is going to regenerate the thought of our American minds internationally and possibly restore what was I think one of the great things we had in olden times, large firms dealing in all sorts of commodities from all parts of the world.

Any one who has been in Hamburg will see that the English have sent their sons out into those houses, the same as they do in South America, and if we are going to have a great fleet of merchant ships we must also have American merchants who are capable of thinking and trading internationally along those lines. A great campaign of education is necessary to encourage us to look out over a broader field.

I think in a great many instances we have chosen to localize our thought rather than to internationalize our thought, and to me one of the strong advantages of the free port will be the restoration not only of the employment of the American mercantile marine power, but the employment of the American merchant for international trade.

Mr. JOHN W. LIBERTON, the Atlantic Refining Co., petroleum products, Philadelphia, Pa.:

* * * * *

I represent the petroleum interests, the Atlantic Refining Co., as well as the Maritime Exchange. We are not making use of the drawback system for the reason that although in years past we have imported large amounts of tin and collected very large sums in drawbacks, as much as nearly a hundred thousand dollars in one month, we are at present using the domestic material. But that is likely to change with the tariff and trade conditions.

We are located in that part of the city referred to by Mr. Zeller and Mr. Catell, the southwestern section, where possibly our section might be taken into a free zone. I doubt very much if it would pay us—we occupy about a square mile of land—to move into the free zone. If we should return to the importing of foreign tin and collecting drawback, I doubt even then under those conditions if we would move into the free zone. But if we could be taken into it, it would no doubt be very beneficial to us.

Commissioner KENT. Of course, that is a matter of great interest to the commission. In other words, your statement would lead one to suppose that if you were starting out de novo and did not have fixed investment, you would probably put part of that in the free zone.

Mr. LIBERTON. Very likely. On the question of the present system of drawbacks I feel very strongly on two points, both of which I believe have been touched upon by other speakers. One is the matter of the 30-day period before the drawback can be collected, and the other is the matter of landing certificates.

The money we have invested in tin when we are buying the imported material represents very large amounts, because we do not bring it in say in one week and export it in another as, perhaps, the sugar people do. We have the tin lying here for months sometimes, because we are bound to have a supply on hand in order to take care of the uncertain arrival of the vessels taking the export cargoes and we have to have a supply on hand ahead of time, and that duty is locked up during all of that period. It seems to me that the 30-day limit could be very well waived by the Government.

Then there is the matter of being required to file a bond to produce a landing certificate. While we have a year in which to do that, sometimes it has been necessary to extend it, and it has taken us two years before that bond is canceled.

Commissioner KENT. Does the expense of the bond bear any relation to the length of time that the bond is outstanding?

Mr. LIBERTON. We do not employ bonding companies for that purpose. We give bond ourselves, and there is not an actual outlay of money so far as the bond goes, but it is largely a matter of the trouble and difficulty, the extended correspondence in getting those certificates back, and then if there is any discrepancy to have to refund the duty.

Commissioner KENT. Your statement brings up an interesting question as to how you can avoid difficulties in order to furnish bond. You say that you do not have to tie up any money and you do not have to pay any fees for the money. A great many people do have to do that.

Mr. LIBERTON. That is one reason why it is not fair to the general community, and I believe this free zone would be very valuable to the man with limited capital who could start fresh and take advantage of this locality if it was purely an export business. For that reason, under the principle of being interested in the entire body politic, we would favor and strongly urge the bringing of a free zone in Philadelphia.

Dr. WILLIAM D. WILSON, director Commercial Museum, Philadelphia, Pa.:

* * * * *

Commissioner KENT. Dr. Wilson, I understand that you are the gentleman who is conducting this big Commercial Museum here.

Dr. WILSON. Yes, sir.

Commissioner KENT. The point has been brought before the commission a number of times that there would be a great advantage in a free zone in having a continual exhibit for both foreign and domestic goods showing the methods of repacking and demonstration packages for trade. Why and wherein would a free zone be a better place for such an exhibit than customs territories? Is there trouble about bonding goods that are on exhibition, samples, etc.?

Dr. WILSON. We have in Philadelphia, in the last 20 years, accumulated an immense amount of illustrative products brought from all countries.

Commissioner KENT. Have they paid duty?

Dr. WILSON. They have paid no duty. The Government has been perfectly willing to allow these goods, no matter what their value might have been or may be, to be put on exhibition, and the Commercial Museum has been practically a bonded warehouse in that sense. The Government has permitted us many times to remove from the customhouse the exhibits which have been sent to us from foreign countries or the exhibits brought here and put on exhibition in different expositions. It has permitted those goods to go direct to the Commercial Museum and be opened under the inspection there of a customs inspector.

Commissioner KENT. Can a merchant utilize your museum for his samples of foreign goods without any interference by the Government people and without the payment of duty and without bonding?

Dr. WILSON. He would have to have special permission and a special records would have to be kept in the customhouse. For instance, I have one illustration of a very valuable exhibition of materials from Brazil which was sent to New York and finally permission given by the customhouse to be sent to the Commercial Museum. It was on exhibition there for two or three years, always under the eye of the customs, and later sent to Hamburg.

Commissioner KENT. Was it used commercially by the merchants here? Did anybody make any money out of that exhibit? Did they use that as a sample of what they would furnish people who were shipping with them here in Philadelphia?

Dr. WILSON. This particular collection was not exactly in that line, but the spirit of the thing would have been the same.

Commissioner KENT. As I understand it, then, your museum would not accommodate specific packages that some individual merchant wanted to display to a prospective customer?

Dr. WILSON. We have never taken that up in exactly that way.

Commissioner KENT. I am thinking about a purely business museum. I was wondering how far you went into the active end of commerce.

Dr. WILSON. We have never stimulated that particular method of doing business.

* * * * *

Commissioner KENT. I was, of course, particularly interested in the question as to whether there would be a better opportunity to exhibit business samples in a free zone than there would be in customs territory, and I was anxious to get some information as to the practice and custom in that regard.

Dr. WILSON. I should think that a free zone which would allow anybody to enter, any individual to enter freely and study the situation, would offer—I mean under the present restrictions—a much better opportunity for the exhibit of all foreign trade materials which might be used and utilized in the manufacturing interest, unless we had abrogated some of the laws which control our customs.

Commissioner KENT. Would not an exhibition of the methods of packing adjusted to foreign countries also be of benefit?

Dr. WILSON. I think that could be done just as well in the Commercial Museum. We have taken that up.

* * * * *

Considered as a place where foreign goods may be stored, mingled, repacked and manipulated for export, all free from customhouse interference, the advantages of free ports are at once apparent and concrete. It is in this that, should the system be installed in the United States, its value would be earliest demonstrated.

* * * * *

Considered from the manufacturing standpoint, as a place where imported raw materials may be made up for export, the value of a system of free ports or free zones for the United States is more in the future, though perhaps it may have equal possibilities.

The establishment of these free zones would eliminate for the industries established in such areas some of the admitted disadvantages and inconveniences of the present system of drawbacks, and, if the facilities were used to any great extent they would likewise tend to reduce the economic waste involved in the present system of manufacturing for export, goods into which foreign raw materials largely enter.

It is conceivable that such industries as do not require large space or extensive equipment, and in which the processes of converting the imported raw materials into export products are few and simple, would take advantage of and be greatly benefited by the establishment of a system of free ports.

* * * * *

Mr. JOHN L. VANDIVER, customhouse broker, Philadelphia:

* * * * *

Commissioner KENT. Do you believe in throwing goods out of the warehouse at the end of three years?

Mr. VANDIVER. There is no necessity for that. If the importer is still interested in the goods and is willing to pay the storage on them, there is no reason why any question of that kind should be raised. That

has nothing to do with the question of bonded manufacturing.

We have to furnish about seven different evidences of export. Now that is entirely senseless.

Commissioner KENT. The goods have to be consecutively identified.

Mr. VANDIVER. They do not in many cases. They have been trying to do that in the last few years. I can give you many cases where they practically eliminated a man from obtaining drawbacks because they insisted on unnecessary requirements. You can take the candy manufacturers in Philadelphia, for whom we collected for many years. They had to quit it, because they simply could not follow the advice of a special agent who would come around and say, "When you get the five barrels of sugar you will have to put that aside and follow it up to know exactly in what particular item that sugar goes." That is not necessary, because the firm uses only imported sugar. They can not substitute any other kind of sugar, and if they should happen to use this barrel or that barrel, it does not matter to the Government, because the rate of duty is practically the same. But there are many other cases worse than that.

* * * * *

Interview Between Hon. William Kent and Capt. V. Lassen, January 3, 1918.

FREE PORTS.

Minutes of meeting between Hon. William Kent, Hon. E. P. Costigan, members, United States Tariff Commission, Capt. V. Lassen, superintendent Scandinavian-American Line, New York City, and Mr. S. W. Hamilton, chief marine division, New York customhouse.

Capt. Lassen had stated that the free port or free zone of Copenhagen had proven inadequate in area for the business involved.

Mr. KENT. In order to get the advantage of a free zone, you need a large area?

Capt. LASSEN. Yes, sir.

Mr. KENT. What has the free zone done to the customs zone in the matter of the use of docks, etc.? Has it taken away a large portion of the business?

Capt. LASSEN. No, sir. Business has gone to the free port because it could not be handled in the old port, although they have been extending the old port to the south as much as they could. They have not been able to extend it sufficiently. Naturally, a whole lot of the business goes into the free port.

Mr. KENT. Free goods as well as dutiable? Domestic exports as well as reexports?

Capt. LASSEN. It has been an advantage to get there, because they can always export from the free port.

Mr. KENT. Is it a better place for export cargo?

Capt. LASSEN. Yes. They have the facilities there to handle it.

Mr. KENT. How do the facilities of the customs port compare with the facilities of the free port?

Capt. LASSEN. In the free port they are modern. They have the facilities to handle cargo much better in there than in the old port. They have traveling

cranes on docks. The cranes take the cargo right from the ship's hold and bring it across onto the platforms, where they can wheel it into the warehouse.

Mr. KENT. There is no delay for sampling, or anything like that?

Capt. LASSEN. Not at all.

Mr. KENT. How do the charges in the free port and customs port compare?

Capt. LASSEN. I really could not tell you, for the reason that the customs port authorities are in Copenhagen, but I think that the charges were about the same. The customs port is also owned by private persons.

Mr. KENT. In the free zone, do the liners have their own space?

Capt. LASSEN. Yes, sir.

Mr. KENT. Do any of the lines put up their own warehouses?

Capt. LASSEN. All the warehouses are put up by the Free Port Co. The only thing that is put up by the steamship company, I think, is the baggage warehouse, and waiting rooms for passengers, and offices to care for the arrival and departure of the passenger ships.

Mr. KENT. Is there any general building for an exhibition of samples, etc.

Capt. LASSEN. No, sir.

Mr. KENT. How is that handled? Suppose a man is going to buy goods from those stored in the free-port warehouses. How is he going to see what he is buying?

Capt. LASSEN. He would go into the warehouse and see it.

Mr. KENT. Would not a special exhibit building be a good thing?

Capt. LASSEN. I think it would be.

Mr. KENT. As to the difference in charges between the free port and the customs port—

Capt. LASSEN. I am not sure of the difference there, but I think there is very little difference, because all the port business is handled by the harbor board.

Mr. KENT. You do not know whether this port has been a financial success?

Capt. LASSEN. I think it has in later years.

Mr. KENT. From what I can learn, there are two or three things in the nature of subsidy. The Government guaranteed the interest on bonds, over and above expenses, up to the amount of 8,000,000 kroner, subject to restitution from earnings. What is the value of kroner?

Capt. LASSEN. One kroner is about 27 cents. At the present rate I think the kroner is about 32 cents.

Mr. KENT. Why do not all ships go into the free zone? Why should any of them go to the customs port?

Capt. LASSEN. Mostly bulk cargoes are handled in the customs port, such as coal, coke, etc.—cargoes that go direct to merchants who have their own warehouses. The old customs port is lined with warehouses along the wharves, and the merchant buying a cargo of grain, for instance, would want that delivered at his own warehouse. Farther south in the harbor there is nothing but coal and coke handling. The ships going into the customs wharf itself go there because there is a bonded store there, and a sampling store. But it is only small cargoes that go there. All the big cargoes go into the free port because they have the facilities.

Mr. KENT. What would happen to the existing facilities in New York if a big free zone were to be established there?

Capt. LASSEN. They will remain the same. You could lighter from the steamer to the free port. In Copenhagen, if goods are to be exported from the free port into the old port (customs port) they go on a lighter, which is sealed, and a customs inspector goes along with it to the customs port.

Mr. KENT. It is sealed and guarded, rather than bonded?

Capt. LASSEN. Yes, sir.

Mr. KENT. You think that if a large free zone were established in New York Harbor, there would be business enough for the present facilities in addition to the free port?

Capt. LASSEN. I think so, because there is so much passenger business. The piers on the river front in New York are occupied with the passenger business, and it would not do to transfer the passengers to the free port, because they must be convenient to the hotels, etc. The free port must be established in such a place as to have easy access to the railroads. Also, there must be land behind, so that houses can be built for the employees.

Mr. KENT. Are you familiar with Hamburg?

Capt. LASSEN. Yes, sir; but that was many years ago. As far as I understand, Hamburg has been working under the same conditions as Copenhagen—too small. They could not extend it. They had no space to develop.

Mr. KENT. What is your idea about manufacturing in a free zone?

Capt. LASSEN. I think it is a very good idea. You get raw materials in and have them manufactured, and then export them either to the interior or to foreign ports.

Mr. KENT. But goods manufactured in a free port are handicapped as against the interior. On the other hand, your mixing, blending and cleaning would be of assistance.

Mr. GREER. Did you ask Capt. Lassen about the regulations concerning vessels entering the free port?

Mr. KENT. What does a vessel have to do on entering the free port at Copenhagen?

Capt. LASSEN. Nothing, except file a copy of the manifest at the customhouse.

Mr. KENT. But you have the quarantine?

Capt. LASSEN. Yes, sir.

Mr. KENT. Do you have any regulations regarding seamen?

Capt. LASSEN. No, sir.

Mr. KENT. How about the mails?

Capt. LASSEN. They are taken care of in the free port.

Mr. KENT. So that there is no difference in treatment of the mails or the quarantine from what there would be in the customs port?

Capt. LASSEN. No, sir.

Mr. KENT. No benefit?

Capt. LASSEN. No, sir.

Mr. KENT. How about unloading? Can you unload more rapidly? Is there any law that holds you back from the customs zone?

What happens to the cargo?

Capt. LASSEN. It always goes to the warehouse. The warehouses are built right up to the docks. Of course, some goods that will stand the weather are sometimes left on top of the docks.

Mr. KENT. In New York there are a lot of warehouses back from the waterfront—

Capt. LASSEN. In New York anybody can apply for permission to run a bonded warehouse. They are scattered all around. It is very inconvenient, because the goods must be trucked. That is why I think a modern free port, with warehouses on the docks, will be of great assistance to us.

Mr. GREER. Suppose a vessel wanted to unload at night or work on a holiday; can they do that at Copenhagen in the free port?

Capt. LASSEN. Yes, sir; at any time.

Mr. GREER. At New York, under our customs laws, no vessel can unload at night without a permit.

Capt. LASSEN. There is a special permit for that.

Mr. GREER. And before it can unload at all the master must go to the customhouse and make an entry of his vessel.

Capt. LASSEN. No, sir; not necessarily. A preliminary entry is taken out by the broker. Then the master can enter his vessel within 24 hours after arrival. Outside of that, there is nothing.

For instance, if I am expecting a steamer, and wish to discharge immediately upon arrival, before it is entered I can apply for a permit to discharge that night, or load that same night if it is bonded goods. As far as we are concerned, we take out a monthly permit for lading bonded goods in New York.

Odd steamers that come in are different, because pier space must be arranged for, etc. With the liners it goes just like clockwork.

Mr. KENT. Are your ships often delayed by cargo being held on the dock or delayed in removal?

Capt. LASSEN. Cargo is often delayed on the dock on account of papers or bills of lading or something like that not coming forward.

Mr. KENT. How about the percentage that is taken out for sampling, inspection, etc.; does that delay you much?

Capt. LASSEN. No, sir. We have trouble and delay many times on account of the customhouse inspector being unable to get a truck when the storage time for the goods is up. According to the rules and regulations, he can hire a truck from anybody, outside of the contract trucks, and let the merchant pay the regular rates for trucking, loading, etc. But at present they must not do that. They must call up some deputy on the telephone at the customhouse, and he must decide. It always takes time. We have recently had a case where we could not get rid of the goods. The customhouse inspector tried to get the trucks over, but he could not get them. He went to his district inspector and he had the same trouble.

Mr. KENT. How do you collect your outgoing cargo in New York—by lighters?

Capt. LASSEN. Some comes by lighters and some by rail. We get some from the Hoboken Railway Co. and the rest by lighters. The majority of the incoming goods go by lighters from the pier. I believe that it would be much better if they would use the customhouse inspector as he was used in the past—pay him a salary and hold him responsible for the proper inspection of goods.

Mr. KENT. Would not the free zone tend to get your cargo together much better than it is gotten together now?

Capt. LASSEN. I believe it would facilitate matters wonderfully if the free port has good railroad connections and good mechanical appliances,

Mr. KENT. How is the supply of fuel, oil, etc., handled under present conditions with reference to your line at New York?

Capt. LASSEN. We are coaling by the old-fashioned method. In Copenhagen, the company has its own elevator that goes alongside the ship and coals from there.

Mr. KENT. Do you coal at your own dock in New York?

Capt. LASSEN. Yes, sir; but we have to hoist it up in buckets from the barge alongside. It works all right, but it is not as fast as it might be.

Mr. KENT. Do you have Diesel-engined ships? Where do you get your oil?

Capt. LASSEN. The Standard Oil Co. has lighters that come alongside the ship.

Mr. KENT. Could not the oil be obtained by a pipe line direct to the ship?

Capt. LASSEN. In the free port I do not think you could do that. You must remember that there are a great many ships coming there. I do not think it would pay to put down a pipe line. The Standard Oil Co. is so well equipped with lighters that it would not make much difference.

Mr. KENT. In Copenhagen does a great deal of shipping anchor in the stream, or does it go to the dock?

Capt. LASSEN. It all goes to the dock, except those loaded with explosives or more than 18 barrels of kerosene, which must discharge at a certain place.

Mr. KENT. At Hamburg there is a great deal of anchorage in the stream on account of lack of space?

Capt. LASSEN. Yes. All the big Hamburg liners are tied up to buoys, and their cargoes taken off by lighters, and distributed up the rivers or elsewhere by lighters.

Mr. KENT. In Copenhagen the warehouses are all built by the company?

Capt. LASSEN. Yes, sir.

Mr. KENT. And the equipment is all furnished by the company?

Capt. LASSEN. Yes, sir.

Mr. KENT. Outside of the office buildings, etc., your shipping company does not own anything?

Capt. LASSEN. No, sir.

Mr. KENT. Does your company lease a certain portion of the piers, etc., or do they take a chance on getting a berth?

Capt. LASSEN. Our line has exclusive berths for the ships.

Mr. KENT. You pay a regular rental?

Capt. LASSEN. Yes, sir. So much per ton.

Mr. KENT. Suppose you did not send any ships to the free port and therefore had no tonnage, would you have to pay anything?

Capt. LASSEN. Undoubtedly, we would have to pay something; but I am not familiar with the arrangement in that case.

(Mr. S. W. Hamilton, of the New York customhouse, came in to the meeting. Then followed reading by Mr. Kent of skeleton report on free zones.)

Mr. KENT. What happens to the cargo of a disabled ship coming into New York Harbor?

Mr. HAMILTON. We give a permit to land and remove cargo. There is no trouble about it. The cargo remains under customs supervision while it is stored on the lighters or on the piers.

(During general discussion of possible locations, Capt. Lassen stated that any areas where piers are built at the present time should never be taken over.)

Capt. LASSEN. After five years this area in Copenhagen proved to be just half large enough.

Mr. KENT. It did not kill off the existing facilities? They built a new customs district besides trying to extend the free zone?

Capt. LASSEN. Yes, sir; to the south.

Mr. KENT. It is stated that a great advantage was found in the use of banking facilities in the case of the free port over the customs port; that is, in the standardization and issuance of and trading in warehouse certificates. The banks would lend money on the certificates?

Capt. LASSEN. Oh, yes; they do that.

Mr. KENT. What is the difference between the free port and the customs port in that connection?

Capt. LASSEN. In the customs port, they are mainly private warehouses. But any person can go into the free port and get its facilities and handle his trade through the banks.

Mr. KENT. If a free zone were established at New York, what would be your procedure if you were bringing in a ship with both passengers and dutiable and free cargo? Would you go into the free port, or into the customs port?

Capt. LASSEN. That would depend on the desires of the importers of the cargo, whether or not they desired it delivered at the free port.

Mr. KENT. How do you think they would want it handled?

Capt. LASSEN. I believe that if we had the free port, with good facilities, such as rail connections, warehouses, etc., that they would want it to go to the free port.

Mr. KENT. Would the vessel or the lighter go in?

Capt. LASSEN. I think the vessel would go to the regular dock and send the lighter to the free zone.

Mr. KENT. You do not think that the vessel would land the passengers at the regular dock and then go to the free zone?

Capt. LASSEN. I do not think so, because it is expensive to transfer the ship from the dock to the zone. While we are discharging the ship, we are coaling her, and putting on sea stores, and doing anything that could be done while the vessel was being transferred.

Mr. KENT. Do any passengers go into the free zone at Copenhagen?

Capt. LASSEN. Yes; all our passengers are landed in the free zone there. Those going across to Sweden have their baggage assembled, and go right out from there.

Mr. KENT. How about passengers and baggage going into Denmark?

Capt. LASSEN. That is examined there and the duty paid there.

Mr. HAMILTON. At the free port? They have customs inspectors at the free port?

Capt. LASSEN. Yes, sir.

Mr. KENT. Mr. Hamilton, if a free port were established at New York, would it be your opinion that the passengers and their baggage should be prevented from landing there?

Mr. HAMILTON. If you could concentrate all the passengers and their baggage at a certain point it would simplify matters a great deal. The great problem now is to move a force of men from one point to another.

Capt. LASSEN. I think that it would be an awful handicap if the passengers and their baggage were

handled at any distance from the great railway terminals and the hotels.

Mr. HAMILTON. Passengers and their baggage are disposed of before the freight is touched.

Capt. LASSEN. Besides that, the vessels carrying mainly passengers do not carry much general cargo. What they do carry is mainly express stuff. I do not think that the harbor as it is would be affected by the establishment of a free port.

Mr. KENT. Suppose you had a cargo that was 90 per cent free goods and 10 per cent dutiable goods. Would you run that ship into a regular port or the free zone?

Capt. LASSEN. That would depend on what the importer said. The goods might be consigned to either place. We would land them at the place to which they were consigned.

Mr. HAMILTON. The passenger steamers will always go to their present docks.

Capt. LASSEN. Of course.

Mr. KENT. They permit retail stores in the free port at Copenhagen?

Capt. LASSEN. They are confined to ship stores and restaurants.

Mr. KENT. That is subsidizing ships' stores at the expense of the revenue. They do not have that in Hamburg, do they?

Capt. LASSEN. No, sir.

Mr. KENT. Captain, is there any shipbuilding in connection with the free port at Copenhagen?

Capt. LASSEN. No, sir.

Mr. HAMILTON. Are shipments made from the customs port to the free port?

Capt. LASSEN. Oh, yes; you can export to the free port.

Mr. KENT. Do they have the drawback system at Copenhagen on exports from the customs port?

Capt. LASSEN. I do not know about that.

Mr. HAMILTON. If merchandise were withdrawn from an existing bonded warehouse and shipped to the free zone, would that constitute a shipment if it did not go into a vessel?

Mr. KENT. It ought to. That is the theory. When it is taken into the free zone it is the same as though it were taken out of the United States.

Mr. GREER. It would be the same thing as a landing certificate in a foreign country.

Mr. HAMILTON. And the customs officer at the entrance of the free zone would receipt for it and certify to the shipment?

Mr. KENT. It is then in the free zone. It is none of your business after that.

Mr. HAMILTON. Suppose a shipment is removed from the bonded warehouse almost at the end of the three-year storage period and sent into the free zone, and there allowed to remain a longer period. Then suppose that it were shipped to Boston, or even returned into New York. How about the duties? On what valuation would they be based? At the time of original importation to the country, or of the second importation?

Mr. KENT. That is a matter for the rules and regulations. That does not necessarily affect the original idea.

Captain, how do you find the charges in New York for lighterage, towage, etc., as compared with Copenhagen?

Capt. LASSEN. I believe New York is a little higher. But I assume that the charges at Copenhagen have

been changed during the last five years, so I really do not know.

Mr. HAMILTON. Are the facilities at Copenhagen better than they are on some of the modern piers at New York?

Capt. LASSEN. Yes, sir.

Mr. KENT. Do you think the creation of basins and plenty of ships' berths better than any anchorage and lighterage system?

Capt. LASSEN. I think so; yes.

Mr. HAMILTON. If a lighter came from the free zone into the customs port it would not be permitted to discharge unless it did so under the supervision of a customs inspector?

Capt. LASSEN. That is so. In Copenhagen the lighter is generally followed by a customs officer.

Mr. KENT. That is a matter that can be covered by the free-zone regulations.

Mr. COSTIGAN. Mr. Hamilton, you raised one interesting point—possible loss of revenue through transshipment and possible change in date of "original" importation. Does anything else occur to you as objectionable in the free-port system? Anything that may have occurred to you in the course of the discussion?

Mr. HAMILTON. I can see that it has advantages in some respects, but whether or not it would be practicable in New York I could not now venture an opinion.

Capt. LASSEN. There is no doubt that there will always be a little trouble. But I think that will be eliminated.

Mr. HAMILTON. There are immense possibilities in it to handle foreign trade.

Mr. KENT. That is the basic idea.

Capt. LASSEN. There is one thing that we must make up our minds to, if we want to do business with foreigners, and that is that we must give our customers what they want.

Mr. KENT. Suppose we want to make a packed package for shipment to South America. We must pay all the duty on that before we can make it up?

Mr. HAMILTON. Yes, sir.

Mr. KENT. If that is true, then we must charge the South American merchant what the Hamburg merchant must pay, plus our duty?

Mr. HAMILTON. Yes, sir. I do not know of any provision now that would allow you to do that without paying the duty.

Mr. KENT. Having to pay the duty on the separate articles in the packed package cuts us off from that trade.

Mr. COSTIGAN. You can provide for that by law in the present bonded-warehouse system.

Mr. HAMILTON. Yes; but you have remarkable possibilities for fraud in the scattering of the warehouses.

Mr. COSTIGAN. Who meets the policing expense at Copenhagen?

Capt. LASSEN. Customs inspectors are watching the entrance as far as customs are concerned. Besides that, the city has a regular police station in the free port.

Mr. KENT. It is part of the municipality as far as the policing is concerned.

Capt. LASSEN. The guarding of the warehouses, docks, etc., is done by the free port corporation at Copenhagen.

Mr. KENT. The free port corporation does not have to pay for the policing. In Hamburg it is a charge against the business. There are just three things that Denmark does for the free port: One is the policing, another is the granting of the privilege to buy ships' stores free of duty inside the port, and the third is the guaranty of interest on the bonds up to the extent of 8,000,000 kroner.

Mr. COSTIGAN. Do the railroads run into the free zone?

Capt. LASSEN. They run right up to it. The State owns the railroads.

Mr. COSTIGAN. You would require an enlargement of the customs administrative force.

Mr. KENT. The chances are that you would very greatly enlarge the customs. The policing charges should be paid out of the charges of the port.

(Adjournment.)

Extracts from Letter of George R. Meyercord, President the Meyercord Co. (Inc.), Chicago, Ill., of May 2, 1918, to Hon. William Kent, Member U. S. Tariff Commission.

I have been carrying on rather an animated correspondence trying to bring home that side that I first brought up with you—namely, the development of foreign trade to enable American manufacturers to purchase part of their article of commerce abroad and continue to make part of the article in this market and use the zone for the assembling for export market.

I firmly believe that many American manufacturers, such as the cash register people, who just before the war erected a plant at Birmingham, and other manufacturers, would continue to remain, in part at least, American manufacturers in their export shipments. This is the one phase of the bill that appeals to me most. I believe that if sufficient arguments and concrete examples were advanced along that line of thought, greater support for the measure could be secured.

I think I cited the sewing machine incident to you. I will now point out that that was originally, at the time the patents were alive, an American industry and only transferred to the foreign field on the expiration of the patents; but I do believe that those factories could have been kept in America, at least to the extent of making the heavy castings and woodwork here, the finer parts having been imported and assembled in this neutral zone.

I believe that is also true with regard to articles like cream separators. It is only four or five years ago that the Sharpless people at West Chester, if I remember correctly, opened up a factory in Hamburg.

It is only a matter of time when the vast export business of American typewriting companies will be transferred to the European branches of these companies, unless something of this character is done.

Broadly speaking, my idea is that small parts requiring expensive labor application in the article could be made in Europe, and the heavy and broader work done here, and instead of the American industry losing the entire article, part of the article would continue as American manufacture, and the profit accruing on the small part—which would be assembled in this zone and placed in the machine—would also naturally remain as American capital.

This is the one phase of this situation that I believe will appeal to the Members of Congress, provided it is

advanced strongly enough. That's a phase of the question that would be particularly interesting to such a vast gathering of business men and manufacturers as would attend such a conference as the one I attended at Cincinnati, the National Foreign Trade Council.

If I can be of any further assistance, command me.

Letter of Chas. D. Boyles to Hon. William Kent.

NEW YORK CITY, June 14, 1918.

HON. WILLIAM KENT,
United States Tariff Commission,
Washington, D. C.

DEAR SIR: Referring to our conversation regarding the writer's opinion and experience in the past with the free ports of Europe:

The writer was a member of the Albert Dickinson Co., of Chicago, wholesale seed dealers, for 35 years. This company's business extended all over the world and we did a free business in other parts of the world on goods not intended for the American markets, in addition to the goods which we brought to the United States. We had to meet the competition of the European, Asiatic, and African merchants and consequently were compelled to study and find the most economical methods of transportation, storage, and distribution. The free ports of Europe we found in many instances much cheaper for the carrying of these stocks of goods, there was less red tape and less expense. We were able to move the goods in and out of the free ports quicker than we could those ports that were controlled by customs duties and regulations.

We found that the warehouse companies in the free ports made financial arrangements so that we were able to secure advances on our goods while lying in their warehouses on very reasonable terms. In many instances, the German steamship lines made specially low rates of freight to the free ports in order to secure our business and take it away from the English, Dutch, and Belgian shipping ports. All these reasons caused us to accumulate stocks in the free ports where we held them, waiting to sell them in whatever part of the world that we could get the best price. Our dealings were exclusively in agricultural products and we made it a practice to purchase the surplus stocks in various markets of the world when the prices were below the cost of production, ship them to these free ports where we could store them and finance them cheaply and hold them until the failure of that particular crop in some part of the world caused a decided advance in the market. We then sold them to the best advantage in whatever part of the world we found the highest prices existing.

Some of these lines of goods are grown in parts of the world where it would not be practical to accumulate and carry the stocks in the proposed free ports of the United States. But others could be handled in the same way if the same facilities existed in the United States and there are many other lines of goods besides our line which could be accumulated in the American free ports to just as good an advantage as in the European free ports, if these ports and facilities existed.

The United States is to-day taking her rightful position in the world and the merchants with the assistance of the Government should establish all machinery of

every nature that is necessary for the United States merchants to be able to compete with the merchants of the entire world for the trade of the world at the close of the war. Competition is going to be very sharp after the close of the war in many lines and the merchants of the United States need every possible facility, including free ports and a merchant marine controlled along lines which will permit them to meet the world's competition. These two facilities, I believe, are just as essential to the future success of the United States in the world's markets as the financial relations and facilities which are already being established.

I trust that this will give you the information which you desired, based on the actual experience of our own business in the past.

With kindest regards, I am,

Yours, truly,

CHAS. D. BOYLES.

Address of H. R. Geddes, of Dover, England.

At a meeting of the Dover (England) Chamber of Commerce on February 14, 1918, Mr. H. R. Geddes, managing director of the Continental Daily Parcels Express and Northern Traffic (Ltd.), outlined his proposals for the creation of free ports in connection with after-the-war trade. He said, in part:

What a free port means is a certain area with spacious warehouse accommodation where no bonding is necessary, movement is free, and there is no customs supervision; consequently much traffic, especially transshipment traffic, is carried to these ports or free areas, which become centers for overseas trade on a large scale. Certain cities in North Europe found their transshipment trade more important than their direct exports and imports for the country, or part of the country, of which they were the recognized port of entry. For example, Hamburg, at the time the German Empire was formed, did a huge transshipment business with the Baltic. Her overseas lines carried homeward bound more freight for non-German Baltic ports than for the interior of Germany. Hamburg, therefore, refused to join the German customs union. Her farseeing traders did not want customs officials levying duties upon all goods she imported or forcing the maintenance of an expensive system of bonded warehouses to escape customs levies. It may at once be granted that Hamburg merchants could have paid the duties and later collected drawbacks when the dutiable goods were reexported, but there is an immense amount of red tape connected with the collecting of drawbacks, and there is the added disadvantage of the tying up of large sums of capital, which could be more profitably utilized in trade. For example, it was necessary to prove the foreign origin of all raw material contained in the reexported or transshipped product, which, in the case of goods partly manufactured within the free area, or blended products of mixed home and foreign origin, would have been a matter of no small difficulty. For these and similar reasons Hamburg remained outside the Zollverein or German customs union. Unhindered by customs officials, ships went there and departed; Hamburg stored mixed manufactured goods for export or transshipment without any hindrance, and remained like a foreign island or a free state on German soil.

Not until goods were forwarded inland did Hamburg know that a German customs tariff existed. In 1882 Hamburg at last consented to enter the customs union, but on one condition only, namely, that the Empire should contribute 40,000,000 marks toward the construction of a free port—i. e., this free port or harbor was surrounded by a customs wall and remained like foreign soil. The city proper entered the customs union. Within the harbor limits of the free ports are docks, quays, warehouses, export and manufacturing and blending industries. The Elbe River pilot who takes the vessel into port is sworn in as a customs official and sees that nothing is unloaded on the way up the river. Once the vessel enters the free port it is free from supervision. Cargo can be discharged or loaded at any time, without any charge as at present for customs overtime before and after certain hours. Cargo can be stored, blended, manufactured, exported, and handled without any interference or restriction. The free port is outside Germany. That is the system which I would like to see introduced here, and many British ports, from their geographical situation, offer themselves as better European distributing centers than Hamburg or any other great German ports.

I have succeeded in obtaining a parliamentary return specifying ports of the Continent which are free ports and giving information respecting them. This report unfortunately is rather old, being dated August 11, 1904, and I am sorry to have no more up-to-date information which, had I been able to obtain, would, I feel confident, have strengthened my case materially. At the date in question the German Empire had nine duty-free areas, varying in size from the free port of Hamburg, with an extent of about 2,500 acres, to the free district of Danzig, with an extent of less than an acre. Austria-Hungary had two, Denmark and Roumania had one each. In nearly all cases the free port is geographically a part of a larger port area, although for statistical purposes the free port is usually treated as a distinct locality. The free ports in the German Empire are Hamburg, Bremerhaven, Cuxhaven, and Geestemünde. There are also the free districts of Bremen, Emden, Stettin, Brake, and Danzig. The free ports of Austria-Hungary are Trieste and Fiume. The Danish free port is Copenhagen, while Roumania's is Sulina. In the port of Hamburg the entries and clearances in 1893 were, respectively, about 5,500,000 tons each, and rose, by 1902, to entries and clearances of close on 8,000,000 tons. Bremerhaven increased in the same period from 800,000 tons to about 1,250,000 tons. Cuxhaven rose from well under 10,000 tons in 1893 to nearly 300,000 tons in 1902. This heavy increase, however, is to be attributed to the fact of the port being used by some of the larger German navigation firms. Bremen rose from 350,000 to nearly 900,000 tons. Emden in 1893 had about 14,000 tons of shipping enter and clear, and showed a steady increase to the end of 1900, when the total was over 80,000. Then the free district was established and the 1902 returns showed a tonnage of 210,000 entered and 202,000 cleared. Danzig, where the free area is less than 1 acre and is a portion of a larger port area, would afford a good parallel to Dover. In 1902 the entries were 428,000 tons and clearance 511,000 tons. The free district is used mainly for the storage and shipping of goods produced in Germany, subject to

excise or consumption duty. It is also used for the transit trade in Russian sugar and other similar goods. The ports of Trieste and Fiume show remarkable increases of 50 per cent in 10 years in the tonnage entered or cleared at the ports. The port of Copenhagen has also increased its tonnage by 50 per cent. The trade at the free port of Copenhagen is very largely transshipment for the Baltic countries and transit trade to and from overseas. Of the nontransit trade very large quantities of coffee are sorted in the free port. The port of Sulina in Roumania is rather extensive, being a length of 3 miles of the Sulina branch of the Danube. Here again a very large trade is done.

I have learned during my travels abroad that Sweden proposes to establish free areas or free ports at Gothenburg and at or near Stockholm. In 1916 there was much talk at Petrograd of the establishment of a free port at the Novy Port, but I am, of course, uncertain as to how recent developments may have affected the scheme. Further, and this is interesting, Switzerland has also considered the establishment of a free area at Basle. Switzerland is exceedingly well situated for transit trade, being near the industrial districts of France, Italy, Austria-Hungary, and the German Empire, although, of course, in no circumstances can Switzerland create a port on anything like the lines of Hamburg, but a free area would be a considerable advantage, especially with the excellent transit arrangements Switzerland possesses for transcontinental trade.

After the war the central powers will use all endeavors possible to recapture their lost ocean and export trade, and their free ports will at once commence operations, hoping by means of low rates, subsidized steamers, Government bounties, and preferential home railway tariffs to make a fierce fight in view of ultimately obtaining success. Without organized effort here and combined action by the principal steamship and railway companies the competition would be unequal, but, given properly equipped free ports in this country, regular steamship services and enlightened railway administration, the fight will be on more equal terms. Trade buyers and sellers, commission agents and others would be in a position to establish themselves here and at other ports. Merchandise could be sent direct to importers and received direct from exporters. Extra charges would be obviated and transportation would be considerably facilitated. In the case of large importers and exporters the merchandise could remain in the port and small or large orders could be filled from that port instead of the whole of the merchandise being conveyed to an inland port and dispatched thence. In the same way, goods for export, once a regular market is insured, could also be stored at the ports and shipped as ordered. The geographical situation of any port which it is proposed should contain a free area would require careful consideration. It must be, if possible, within a port which is already one of the main arteries of international transport, and it must be easily approached, with a good railway service, close to the seaboard, or, better still, abutting on the seaboard. There must be room without its confines for the erection of the houses for the workers, who would be necessary for the handling work. There must be ample space for future extensions and developments, and in America a main point was made that the opportunity should be seized to build for occupation by the families who would be

employed there homes which would invite occupation by being designed with a view to comfort and labor saving and providing real home comforts of every description, it being recognized that happy homes and a contented staff would solve most labor problems. It may be interesting to you to know that the houses which were projected were in every case to be fitted with electric light, central heating and ample bathroom accommodations, with electric radiators in every room and constant supply of hot water in every part of the house. The American home is full of these devices, and many of them might be copied here to advantage.

To resume, there must be adequate railway connections, with extensive platform and yard space, plenty of room for making up the trains, and plenty of roofed-in loading space, the latest handling machinery, hoists, cranes, elevators, and escalators, and other devices which would all make for rapid clearance; turntables, water tanks, and even revolving sheds—in fact, a regular railway terminus on the largest scale, with engine sheds and repair shops complete to the last bolt. The car reserve sidings should be capable of holding a very large number of wagons to meet any emergency, and there must be plenty of cross-over roads to enable trains to be made up quickly, as nothing hinders efficient dispatch as much as cramped siding accommodations. Where much business is expected, docks both wet and dry are a necessity. For special transshipment trade special docks and the use of the third side as a feeder. The double rails with turntables at the corners would eliminate much shunting. As regards quay space, the more that can be provided the better. A good wide quay, double lines of rails, cranes fitted to the warehouses and long enough to plumb the hold of the ship, with adequate chutes and motor transporters would make loading and unloading a simple matter. There should be ample room for ships to warp out or to go right ahead without unnecessary turning or towing, which would save much expense. Of course, the more the depth of water to be obtained alongside the piers or within the docks the better, provided, of course, that the quay or docks are protected from the sea swell. If there is plenty of depth and surface space the biggest ships are then able to come in and berth under their own steam and with the least possible delay. As I have already mentioned, the harbor equipment must be of the best.

Labor should be in sufficient quantity and quality, and should be well remunerated. Port charges should be strictly moderate and inclusive, except, of course, as regards extra work, such as repacking, casing, etc. Further, warehouse rent on goods stored would be additional, but I would suggest that free storage for a certain period should be allowed. The port charges should be based on a tonnage rate on goods imported, exported, or transshipped, and this charge would include all the necessary and usual operations, in a word, an inclusive rate, so that it would be known at once what goods passing through this particular port would have to pay.

The next point is that respecting bunkering and oil fuel. A special feature should be made of this, and contracts could be entered into by the port authority or by the merchants established at the port for regular and reasonable supplies of fuel and lubricants. The knowledge that this facility exists would be a

further inducement for steamship companies to use the port works for marine engineering and well-equipped repair shops would be a further inducement. The knowledge that ships could be dry-docked, cleaned, and refitted would be the best possible advertisement and should induce trade as a matter of course. There should be provision for future extensions. Buildings should be available for what would practically amount to manufacturing in bond, although no bond would be necessary. It would be possible to import raw material or partly manufactured goods and then to export the manufactured article, free of all customs or other restrictions. Duties would only be payable on the merchandise actually imported into the country, and this manufacturing department ought to be a considerable source of revenue. There should be well-equipped customs examination floors, suitable for all kinds of merchandise. Finally—and this is a question of some consequence—the question of free ports should be treated as a matter of national importance, and all Government departments concerned, and there would be a good many, should give this movement their support and endeavor to minimize as far as possible the formalities and regulations which, unfortunately, appear necessary to any Government supervision. It is a matter to consider whether, in the event of a company or syndicate having the courage to tackle these proposals, it would not be fair for the legislature to give some financial support, until such time as the port or ports develop sufficient trade to be self-supporting. The various railways and steamship companies operating from the ports might possibly be induced to help in financing, although they would very probably argue that their support would be given by helping in the equipment and by providing tonnage and by paying their dues. Under capable management, provided the arrangements can be made, provided the large railway and steamship companies cooperate, provided the Government gives actual support, free ports on those lines should command success, although not immediately.

Acts of Congress Granting Privileges Similar to Free Zone Practice.

Free-zone procedure has been practically recognized in connection with international expositions, the most recent example being that of the Panama-Pacific International Exposition held at San Francisco in 1915. The act authorizing the exposition which was approved September 18, 1913, contained the following:

An Act providing for the free importation of articles intended for foreign buildings and exhibits at the Panama-Pacific International Exposition and for the protection of foreign exhibitors.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That all articles that shall be imported from foreign countries for the purpose of exhibition, and articles and material imported solely for use in constructing, installing, and maintaining foreign buildings and exhibits at the Panama-Pacific International Exposition upon which there shall be a tariff or customs duty shall be admitted free of the payment of duty, customs fees, or charges, under such regulations as the Secretary of the Treasury shall prescribe; but it shall be lawful at any time during the exposition to sell for delivery at the discretion of the exposition company any goods or property imported for and actually on exhibition in the exposition buildings or grounds, subject to such regulations for the security of the revenue and for

the collection of import duties as the Secretary of the Treasury may prescribe: *Provided*, That all such articles when sold or withdrawn for consumption or use in the United States shall be subject to the duty, if any, imposed upon such articles by the revenue laws in force at the date of withdrawal; and on such articles as shall have suffered diminution or deterioration from incidental handling and necessary exposure the duty, if paid, shall be assessed according to the appraised value at the time of withdrawal for consumption or use, and the penalties prescribed by law shall be enforced against any person guilty of illegal sale, use, or withdrawal.

An act approved August 22, 1912, is of special interest in this connection. Its purport is clear, and its brevity permits printing without explanation, as follows:

An Act to provide for the entry under bond of exhibits of arts, sciences, and industries. (Chap. 331, 37 Stat. L., Public, No. 289.)

Be it enacted by the Senate and House of Representatives of the United State of America in Congress assembled, That all articles which shall be imported from foreign countries for the sole purpose of exhibition at expositions of the arts, sciences, and industries and products of the soil, mine, and sea, to be held in expositions to be held by the Merchants' and Manufacturers' Exchange of New York, in the buildings in the city of New York owned or controlled by the Merchants' and Manufacturers' Exchange, a corporation organized under the laws of the State of New York, upon which there shall be a tariff or customs duty, shall be admitted free of the payment of such duty, customs, fees, or charges, under such regulations as the Secretary of the Treasury shall prescribe; but it shall be lawful at any time during the exposition to sell, for delivery at the close thereof, any goods or property imported for and actually on exhibition in the exposition buildings, subject to such regulations for the security of the revenue and for the collection of import duties as the Secretary of the Treasury may prescribe: *Provided*, That all such articles, when sold or withdrawn for consumption or use in the United States, shall be subject to the duty, if any, imposed upon such articles by the revenue laws in force at the date of withdrawal; and on articles which shall have suffered diminution or deterioration from incidental handling and necessary exposure the duty, if paid, shall be assessed according to the appraised value at the time of withdrawal for consumption or use; and the penalties prescribed by law shall be enforced against any person guilty of any illegal sale or withdrawal; *Provided further*, That nothing in this section contained shall be construed as an invitation, express or implied, from the Government of the United States to any foreign Government, State, municipality, corporation, partnership, or individual to import any such articles for the purpose of exhibition at the said exposition.

Approved August 22, 1912.

These two enactments have never been attacked on constitutional grounds. In connection with these acts, rules and regulations were laid down, that have protected the revenue by bonding and by continuing customs inspection and control. The pertinence of the citations in connection with the free zone is found in the fact that special legislation has been granted to provide for customs immunity in special locations.

Copenhagen Free Port—Law of March 31, 1891.

ARTICLE 1. Under the direction of the Copenhagen port commission a free port for commercial and industrial purposes will be constructed on the western side of the interior roadstead (bay) of Copenhagen immediately north of Kastel Point, with its corresponding lands, which in regard to customs and production taxes will be considered as foreign territory.

The free port will have two basins. The one to the south will have a width at its base of 780 feet. The dike, by means of which this basin will be separated from the interior bay, will be of 3,000 feet, and, in so far as possible, will be constructed in a straight line with a continuous width of 250 feet.

The territory of the free port will be limited to the west by the railroad mentioned in article 2, and will

be situated in such a way that the branch west of the northern port will be on the land belonging to the Copenhagen port commission. The free port will be connected with the customhouse by means of an inclosed wall which will pass through the citadel Frederickshavn.

Lands adjacent to the free port can be included in the free port and still continue to be private property, in accordance with a special agreement with the company mentioned in article 3 and subject to ratification by the legislative power.

ART. 2. The secretary of the interior is authorized to construct a railroad from the free port to the Copenhagen customhouse, passing through the Vognman market until it reaches the Nordsjoelland railroad, and a classification station alongside of the free port.

All these improvements will be considered from every point of view as forming a part of the system of State railways.

The secretary of the interior is equally authorized to conclude all the arrangements necessary to obtain for the State railways the areas necessary for the future construction of a railroad over the existing dike at the extreme western end of the free port.

ART. 3. In order that the installation of the port and the railroads mentioned in articles 1 and 2 may be carried out, it is necessary that a company with a bonded capital of 4,000,000 kroner be formed within four months after the promulgation of the law to take over the construction and equipment of the port. By equipment is understood the warehouses, cranes, railroad, etc. It will also defray the expenses of the upkeep of the construction work by the port authorities in the free port. This construction work (referred to in art. 1) will be determined in detail by the secretary of the interior. In exchange for these obligations the company will take over the exploitation of the free port for 80 years, but the State may terminate the concession at any time after 25 years have expired. The company will collect the wharfage duties of the free port during the period of the concession. (See art. 9.)

The secretary of the interior, who is authorized to award the concession mentioned for the period indicated, shall stipulate in the concession that no other concessions will be awarded for the installation and exploitation of a free port within the limits of the port of Copenhagen during the period of exploitation.

In the concessions it shall be stipulated:

(a) That the company must have its principal seat of business in Copenhagen.

(b) That all the directors must be Danish subjects.

(c) That the company must furnish security, by means of a deposit or in any other satisfactory way; that the sum of 4,000,000 kroner (allowing a deduction for the expenses caused by the formation of the company, as well as the loss of the interest during the time elapsed since the formation of the company until the whole port is open for exploitation, as will be later on determined by the secretary of the interior) is at any and all times available to carry out the buildings and constructions that may be indicated in detail by the secretary of the interior in accordance with this law.

(d) That of the net yearly income one-half is to go to the port commission and the remainder to the company until it receives a yearly interest of 4 per cent on the capital invested in the construction. Any resulting surplus will be divided in the proportion of 4 to 1 between the port commission and the company

until the port commission also receives for the same year an interest of 4 per cent on its total capital invested in the improvements made by it, the value of the latter to be fixed by the secretary of the interior. Should there still be a surplus, it will be divided in equal parts between the port commission and the company.

The concession will also stipulate the amounts to be set aside for the amortization and reserve fund to be created by the company.

After 25 years of exploitation the State will have the right at any time to demand of the company all the property and the accumulated reserve fund and appropriate the same for transfer to the port commission. In this event the State or the port commission (besides taking over the bonded debt of the company, contracted with the consent of the secretary of the interior) will pay to the bondholders the value of the bonds as quoted on the Copenhagen Stock Exchange during the last 10 years. The average of each year will be obtained by taking one-half of the total sum of the maximum and minimum averages of the quotations for each month. Bondholders will at no time be required to give up their bonds at less than par nor can they demand a quotation in excess of 125 kroner for every 100 kroner.

The company must furnish an annual documentary accounting of its expenditures to the Rigsdag for its approval. Three years after the opening of the free port to exploitation, the secretary of the interior may, with the consent of the legislative powers, relieve the company from the obligation to invest all the capital stock above indicated. In the same way he can grant permission to the company (with the consent of the legislative powers) to increase its capital over 4,000,000 kroner, either by increasing the latter or by issuing a bonded loan.

The treasury will guarantee the interest on and the amortization of the bonds which the port commission will issue for the purpose of obtaining funds for the construction of the free port, including the construction of the customhouse, by setting aside for this purpose a fixed and unalterable annual contribution. The amortization will extend over a period not to exceed 60 years. However, this guaranty shall not exceed 8,000,000 kroner. The sums which the State treasury will have to advance in accordance with this guaranty, must be reimbursed by the port commission as soon as possible. (This obligation of the port commission can not be, however, an obstacle for the collection of passage dues on vessels through the port of Knippel, dues which were fixed by royal decree of Oct. 30, 1816.)

ART. 4. The lands and property necessary for the installations will be expropriated in accordance with the provisions established by decree of March 5, 1845, for the expropriation of lands for railroads. However, under this agreement no compensation will become due to the city of Copenhagen for expropriation of its lands or for damages.

ART. 5. For the installation of railroad communications, etc. (mentioned in art. 2), the Federal treasury may use a sum up to 905,000 kroner in addition to the expenses for expropriation.

ART. 6. The lands used for the free port as well as the railroad construction above mentioned will be free, while used for this purpose, of all taxes and other dues which may have formerly been imposed thereon. The warehouses and installations constructed on this

land and pertaining to the company, as well as the buildings for public administrative or exportation offices, will also be free of all taxes generally imposed on buildings and of the land tax which is collected by the city of Copenhagen. (This exemption does not include, however, the water tax.) The same privilege will be extended in the territory indicated to the buildings belonging to the railroad. The port commission is authorized to issue the bonds indicated in article 3 on unstamped paper, be they personal or payable to bearer; and the transfer of the personal bonds, or of those which may have been converted later on into such, may take place without the use of stamps. Contracts made with reference to the installations mentioned do not require any stamps, and the bonds issued by the company can also be extended or transferred under similar conditions. Materials which shall be employed in the construction of the railroad will be admitted free of customs duty.

ART. 7. The lands of the free port necessary for the installation of ——— will be reserved and at the proper time turned over for this purpose on payment of the expenses which the port commission may have incurred in their purchase; or, in case they have become to be the property of the port commission by filling in, they will be obtained by paying the sums which the formation of these lands and their protection against the water may have cost in addition to the interest corresponding to the period elapsed between the conclusion of the improvements and the delivery of the lands.

ART. 8. The secretary of the interior is authorized: First, to leave without effect the law of March 31, 1864, by which a port duty was imposed on outgoing vessels.

Second, to exempt oversea vessels from the port duty established by said law for incoming vessels, on cargo transhipped in the port and sent abroad by vessel, observing the regulations which may be issued in this respect by the secretary of the interior.

The above facilities shall go into force at the time the free port will be opened to traffic by the company mentioned in article 3. At the same time the duties for incoming vessels will be reduced (see No. 2 above) to 30 ore per registered ton of cargo unloaded. If the vessel was completely loaded, and unloaded its entire cargo, it will pay this duty according to measured capacity. If the vessel was not completely loaded or does not unload its entire cargo, it will pay the duty of the quantity unloaded converted into registered tons according to the rates of the customhouse; the duty must always be paid, however, in such a way that it will never be higher than that which would correspond to the measured capacity of the vessel.

The secretary of the interior may decide that instead of the port duty above indicated of 30 ore per registered ton, an equivalent duty may be paid on the articles unloaded, which in such case would have to be fixed for every class of articles in accordance with the tariff schedule of the customhouse. The reduction of the port duties can only take place by process of law; but this is no obstacle to the privileges and exemptions of duties which may already have been granted under the authority given to the secretary of the interior by the law of March 31, 1864, and which continues in force.

No port duties will be collected in a free port; in their place there will be paid wherever articles go from the

free port into Danish customs territory the same duty as collected in the port of Copenhagen. This duty, based upon the rates applied to the article under the customs tariff act, must be equal to the port duty. The calculation will be based on units of one-tenth of a registered ton. If the tariff on any one article is inferior to one-tenth of a registered ton, it will nevertheless pay for the latter amount.

The tax on vessels under the law of July 4, 1863, Chapter V, will cease at the same time that the free port is entirely open for exploitation.

ART. 9. The wharfage tax will be collected in the free port in accordance with the rules which may from time to time be put into force for the public wharves of the port of Copenhagen.

ART. 10. The budget fixed annually for the free port of Copenhagen, as well as all annual accounts, will be communicated to the Rigstag.

The port commission, created by law of September 30, 1858, will be increased by four members, each section of the Rigstag to elect two. These members will hold office for three years.

As long as the guaranty of the State mentioned in article 3 for the loan contracted by the port commission remains in force, the port council can not, without the consent of the legislative powers, make any further expenses than those necessary for the exploitation, conservation, and necessary improvement of the port. It can not, moreover, decide by itself on new extensions or works to be undertaken.

ART. 11. Merchandise received for deposit in the warehouses of the free port, belonging to the company mentioned in article 3, can be sold, mortgaged, insured against fire, etc., without any further requirement than the delivery or exhibition of samples of the merchandise, according to warrants or certificates of deposit. More definite regulations will be fixed by law in regard to these certificates. The secretary of the interior will decree all the necessary rules and tariffs for the administration of the free port.

ART. 12. The products obtained in the territory of the free port must, on entry into the territory of the Danish customhouse, submit to the regulations which may at any time be established under the ordinary tariff acts. No factories for artificial fertilizer, margarine, bookbinder shops or printing establishments, can be established in the territory of the free port without the consent of the legislative body.

Charter of the Copenhagen Free Port Joint Stock Co.

The secretary of the interior, etc.:

In accordance with the authority granted me by the law of March 31, 1891, I approve herewith the charter of the Copenhagen Free Port Joint Stock Co., organized on the 25th day of April of the same year with a capital of 4,000,000 kroner, for the purpose of carrying into effect the management of the free port mentioned in said law during a period of 80 years (the territory of the free port will be treated as lying outside the customs territory of Denmark); this charter will go into effect as soon as said free port has been constructed by the Copenhagen harbor board and equipped by the company with the installations for its operation; all of these acts to be subject to the following conditions:

ARTICLE 1. The free port will be constructed by the Copenhagen harbor board according to plans approved by the secretary of the interior and based on the stipulations of law No. 44, dated March 31, 1891 (art. 2). These plans have been submitted to the company, but the harbor board reserves the right to make such modifications as, by agreement with the company, may be found necessary as the work progresses.

ART. 2. The work to be undertaken by the harbor board is as follows:

Construction of a breakwater and of the new basins in the free port, to the depth and with the installations agreed upon.

To prepare the lands redeemed from the sea by the harbor board that are to be included in the free port.

Acquisition and preparation of additional land for the free port, including the construction of a mole to separate the southern basin of the free port from the interior bay; this mole, which is to be 250 to 270 feet in width, to be partly in the customs territory and partly in the free port.

The construction of the wharves from the quay of this mole toward the interior bay also forms part of this work.

Construction of a canal for flat-bottomed boats between the southern basin of the free port and the interior bay; a fence to separate the territory of the free port from that of the customhouse; customs guardhouses; streets, sewers, and drains, and drainage canals for the streets. The city of Copenhagen is to be consulted in regard to these various constructions whenever it may be necessary to do so.

The arrangement of all the streets in the free port.

The fencing in of the road of communication provided by the aforementioned law between the free port and the Copenhagen customhouse, the roadbed to be macadamized, another road is to be constructed at the Government's expense and under the direction of the secretary of the interior, the land on both sides of the road to be prepared as well as all adjoining roads to such an extent as may be necessary for the main road proper.

The inclosure of the territory of the free port toward the part called Langlinie, and widening and installing therein a harbor for pleasure crafts.

ART. 3. In order to separate the territory of the free port from that of the customhouse, there shall be constructed on the mole that separates the southern basin from the interior bay two iron fences 6 feet apart to permit the passage of the guards. Of these two iron fences, or railings, the inside and higher one will be placed on the line dividing the free port from the customhouse district. On the mole above mentioned, instead of a passageway for the guards, an elevated road 30 feet wide, inclosed, and from 6 to 7 feet above the level of the mole will be built; beneath there will be constructed two passages between the free port and the customhouse district alongside of the wall of the quay and facing the interior bay. This passageway will be made a regular road in all its width.

Streets and sewers will be constructed according to plans which will be furnished by the secretary of the interior.

ART. 4. The expenses necessary for the aforementioned work will be defrayed by the harbor board from port funds supplemented by a contribution from the state for the customhouse fence, and by a contribution by the free port company—established by act

of November 30, 1891, and which will be approximately 80,000 kroner—for the construction of the passageway indicated in article 3. This elevated promenade over the mole will permit the company to construct below the same storehouses, of which they will have the exclusive use.

ART. 5. The improvements to be made by the free port company (the southern part of which will be preferably given over to commercial purposes, while the northern part will be especially devoted to industrial purposes and the deposit of large and bulky merchandise) are:

Construction of roads for the distribution, transportation, and deposit of merchandise in the territory of the free port and of its junctions with the railroads which, in accordance with article 2 of the above-mentioned law and under direction of the secretary of the interior and at the expense of the Government, will lead from the free port to the customhouse of Copenhagen and to the railroad of Nordjoeland, passing through the market of Vogman, and for a distributing station alongside of the free port.

Consolidation of the land on the aforementioned railroads up to a distance of 2 feet on each side of the cut.

Construction of water mains, etc., with all the branches pertaining thereto, excepting the sewers and canals of the streets mentioned in article 2.

Construction of warehouses and storerooms, such as those mentioned in article 4, as well as the buildings for the customhouse, administration, etc.

Installation of drains and other machinery necessary for the service of the free port as well as the installation of a power plant.

Installation of electric-lighting system.

Providing closed launches.

ART. 6. The improvements for the equipment of the free port will be undertaken by the company in the manner, extension, and time which may be indicated by the secretary of the interior. However, the secretary can not demand that the storerooms beneath the elevated road of the eastern mole should cover an extension of more than 800 feet. In order to meet the expenses which these improvements may involve the company may, if necessary, employ all its capital stock (4,000,000 kroner), less a reduction of 3 per cent (amounting to 120,000 kroner), which has been adjudged by the company to the Danish Mortgage and Exchange Bank as a commission for the formation of the company, and the amount of interest lost by the company during the time elapsed since its formation until the free port is open for use and the exact amount of which will be determined by the secretary of the interior.

The bond prescribed by the above-mentioned law (art. 3, No. 3), which provides that all the capital stock with the exception of the above-mentioned reductions should be at all times available for the construction of the buildings and equipment mentioned and as provided for by the secretary of the interior, has been furnished by the company and certified to by the above-mentioned bank in a letter written to the secretary of the interior under date of April 11 of last year.

ART. 7. The secretary of the interior will submit annually to the Rigstag for its approval a detailed statement of the amount which the company may have used of its capital stock.

Three years after the opening and use of the free port the secretary of the interior may, in accordance

with article 3, second last paragraph, of the law above mentioned and with the approval of the legislative power, relieve the company from the obligation of using its entire capital stock.

ART. 8. All the designs and plans for buildings and equipment to be constructed by the company must be inspected and approved by the secretary of the interior, but such inspection can not be made by the Copenhagen harbor board.

ART. 9. Concerning the joint accounts between the state railway and the free port company, in regard to the construction of the junctions connecting the railway in the free port with those of the state, and with the state railway leading to the Copenhagen customhouse, and eventually with those railways which the state may construct over steam-floats in the free port (see art. 28), these shall be prepared by special arrangement approved by the secretary of the interior.

The state reserves the right to construct and use a direct route to pass through the territory of the free port, beginning at the distribution station near the quay wall of the dock until it reaches the wall communicating between the free port and the customhouse.

ART. 10. As soon as the improvements to be made by the port authorities are sufficiently advanced so that construction on the buildings mentioned in article 5 may be begun, the harbor board will authorize the company to start work thereon. The same action will be taken for the construction of buildings to be erected by private parties for industrial use. The company should employ the greatest activity possible on its construction so that it will in no way interfere with or delay the buildings to be erected by the harbor board.

ART. 11. The secretary of the interior will determine the date on which the free port will be open for use and communicate the same to the company for their compliance therewith, and will at the same time enforce the provisions of article 8 of law No. 44, dated March 31, 1891.

ART. 12. The free-port company will have its principal place of business in Copenhagen. The secretary of the interior is authorized to name one or two of the directors of this company who may number three or more, respectively. All the directors must be natives and Danish citizens.

The provisional statutes of the company in force during the period of construction as well as the final ones, and the modifications which may be introduced therein, will not be valid unless ratified by the secretary of the interior.

ART. 13. In accordance with the resolution of the secretary of the interior (examine, however, article 34 hereinafter stated) the company has the right to exploit the free port during 80 years from the date of its opening; the company, however, is under obligation to carry on this exploitation in such manner as to attain the purposes of a free port. The secretary of the interior will approve all contracts of lease which may be made between the company and private parties, as well as all tariffs (including the rates for electric lighting and motor power which the company may furnish to private parties within the free port) and the rules and regulations governing the management of the free port. These tariffs and regulations can not be suspended without the consent of the secretary except in very urgent cases when approval must be obtained as soon as possible thereafter. The company must permit merchandise deposited in

open or inclosed spaces within the free port leased out to private parties, and which it was impossible to receive in the warehouses of the company, to be prepared or manipulated in any way that the proprietors or their representatives see fit. The company shall, at the request of the interested party, receive goods on deposit and issue therefor certificates of deposit and warrants which may be transferred without the necessity of a stamp and under such conditions as will be more definitely provided for by law. Every person has a right, upon payment of stipulated sums and by observing the regulations in force, to make use of the installations in the free port. The company will submit to such regulations of the secretary of the interior as he may make for the purpose of obtaining statistical information in regard to the traffic of the free port.

The appointment and distribution of the officials and laborers necessary for the management of the port will be made by the directors of the company, who will also make all regulations in regard to the service.

ART. 14. The secretary of the interior will determine the amount to be paid for the use of the rolling stock of the state railways over those of the free port.

ART. 15. The buildings and installations indicated in articles 5 and 6 will be kept in good condition by the company during the period of the concession; they also must be kept insured for their total value.

All installations, etc., indicated in articles 2 and 3 (streets and buildings for recreation, unless managed by the city of Copenhagen), will be kept in good condition by the harbor board against reimbursement by the company of the corresponding expenses as approved by the secretary of the interior. However, the expenses for the upkeep of the quay walls of the eastern mole as well as those for the upkeep of the breakwater will be borne by the harbor board. The city of Copenhagen, in accordance with the agreement made with the harbor board, takes charge of the repairs of the sewers and drains mentioned in article 2. The company shall not obstruct the execution of such repairs.

ART. 16. The directors of the company will furnish each year, for the approval of the secretary of the interior, a statement of the revenues and expenditures. The amendments which the secretary may make in such statement must be observed by the company which can not, without the consent of the secretary, incur any expenses that do not appear in the approved budget, nor exceed the expenses indicated therein.

The revenues will consist principally of:

(a) Rents paid by public institutions for sites or buildings.

(b) Rents derived from the leasing of inclosed or open storage places, offices for samples and other, etc.

(c) Fees for the use of cranes and other apparatus of the free port.

(d) Fees for transportation and manipulation of cargoes.

(e) Rents of sites for industrial establishments.

(f) Revenues from the use of electric light.

(g) Revenues from the use of motor power.

(h) Revenues from the use of the quay.

(i) Revenues from the interest on the capital employed by the company.

(j) Other revenues.

The expenses of administration will consist principally of:

(a) Salaries and other emoluments to directors, officials, and workmen of the company.

(b) Office expenses.

(c) Expenses for management, repairs, and insurance of the buildings, warehouses, and other equipment of the company.

(d) Reimbursement to the harbor board for repair expenses on the constructions made by it in the free port (see art. 15).

(e) Tax for the use of the wharf.

(f) Taxes for the management, if there be any.

(g) Reimbursement to the harbor board of the additional expenses incurred for police surveillance.

(h) Other expenses and charges that may arise.

ART. 17. The directors of the company shall promulgate regulations for accounting. The annual return, which must be made within four months after the close of the fiscal year, shall be reviewed by two auditors of which one shall be chosen by the secretary of the interior and one by the bondholders of the company. These auditors will be paid a yearly fee out of the funds of the management, the secretary of the interior to fix the amount to be paid to the auditor chosen by him. After review by the auditors the secretary of the interior will render a decision, after which the bondholders will be paid their dividends. The auditors shall have the right to examine the books, inspect the cash, and call for information in regard to the management at any time.

ART. 18. The secretary of the interior may also call on the company for any information in regard to the management of the free port.

Any party which may consider itself prejudiced by any action of the company may file a complaint with the secretary, who, after hearing both parties, will render a decision.

ART. 19. Merchandise which leaves the free port and enters into the Danish customs territory must submit to the rules as well as to the tariff schedule then in force. In accordance with article 4, law No. 44 of March 31, 1891, there can not be installed within the territory of the free port and without the previous consent of the legislative power factories for the manufacture of artificial manures, or margarine, nor bookbinding, or printing industries for books, newspapers or music. The consent of the Secretary of the Interior is necessary for the establishment of any other industry, as well as for retail stores, within the territory of the free port. The Secretary shall not, however, oppose any difficulties whenever the articles manufactured or sold are for export or for provisioning vessels.

The use of the free port is subject to State control in order to protect the interests of the customhouse. Special care will be taken to prevent the consumption of dutiable articles within the free port, unless such duties have been paid.

ART. 20. The rents to be paid by Government institutions to the company for quarters within the territory of the free port will be determined by the secretary of the interior.

ART. 21. The police of the port of Copenhagen will have authority over the free port (the free port forming part of the port of Copenhagen) whenever necessary, and in the exercise of this authority will

pay special attention to the requirements to the free port company.

ART. 22. The bonds issued by the company may be extended or transferred without the usual stamps, and the contracts which the company may enter into for construction work are also exempt from the use of such stamps.

ART. 23. All warehouses and equipment belonging to the company, the buildings for the offices and management of the company, and for the offices of the Government within the territory of the free port will be exempt from all federal and local area taxes (land taxes); however, the water tax is not included in this exemption.

ART. 24. In accordance with law No. 44 of March 31, 1891 (art. 8), no port fees will be collected within the free port; articles leaving the free port for entry into the Danish customs district pay to the harbor board a tax which will be equal to the tariff rate placed upon the article by the regular customs tariff act, and equivalent to the port tax. This tax will be calculated upon the basis of one-tenth of a registered ton; even if the rate upon any one article does not reach the amount usually paid for one-tenth of a registered ton, payment will be made on this basis.

ART. 25. The wharfage dues in the free port will be the same as those paid at all public wharves in Copenhagen. They will be collected by the company under the control of the harbor board and deposited in the treasury of the company.

The wharfage dues paid by vessels anchoring near the customhouse territory on the east side of the eastern mole in the southern basin will not be paid to the company. The secretary of the interior will establish rules for the division between the company and the harbor board of the wharfage dues paid by vessels which during their stay in the port of Copenhagen may have used either the wharves of the free port or any other public wharves within the port of Copenhagen.

ART. 26. Vessels to which an anchoring place may have been assigned in the customhouse district on the eastern flank, in front of the storehouses constructed by the company or in front of the passages beneath the elevated road, will be obliged, unless they are discharging articles for the construction of the free port or loading similar articles, to vacate their places in favor of those vessels which come to load or unload articles for or from the construction of the free port.

No cargo can be placed on that part of the dock situated between the wharf wall and storerooms or passages of the company that would obstruct the traffic of the moving cranes constructed by the free port company. It is also prohibited to place such articles on the wharf in such a manner as to impede the traffic alongside of the wall.

No articles to be loaded or unloaded can stay on the wharf longer than sunset of the day following that on which they were placed there for loading or were unloaded, unless there be no room for them in the warehouses of the company.

ART. 27. The free port company is not required to contribute in any way to the expenses occasioned for custom surveillance within the free port, whether such surveillance be by land or by sea. The Government will maintain, without any expense to the port company, an office for the liquidation of customs duties in

the customhouse building located within the territory of the free port; this building, however, will be constructed by the port company. Should either the company or any private party demand any special surveillance of their interests such service will be paid by the interested party according to the general rule covering such cases.

ART. 28. The lands situated to the north and the south within the limits of the free zone and which in the port project have been set aside for steam winches may in the meanwhile be utilized by the company; they must, however, be available at any time to be used as originally intended and must be returned in the same condition in which the company received them.

ART. 29. The yearly net proceeds of the free port will be apportioned as follows:

First, 5 per cent of the surplus will be set aside in such securities as the secretary of the interior may determine to constitute the reserve and improvement fund; that is to say, to cover extraordinary expenses and for the renewal of equipment or major repairs which may become necessary, etc., and which, in accordance with article 15 of this charter, should be made at the expense of the company. This fund may only be used during the period of the charter and with the approval of the secretary.

Second, of the remaining surplus the port company and the harbor board will each receive one-half until the share of the port company represents 4 per cent on the capital invested in construction work during the year for which the account refers to. Any remaining surplus will be divided in the proportion of 4:1 between the harbor board and the company until the harbor board, in the same manner and for the same year, has received 4 per cent on its capital invested on constructions within the free port. Should there still be a surplus it will be divided in equal shares between the harbor board and the company.

The amount of the capital to be invested by the harbor board will be determined by the secretary of the interior under the following conditions:

1. The account will include:

(a) The value of the lands redeemed by the harbor board and which enter the free port ready for use—4,100,000 kroner.

(b) The value of the wooden quays (Bolvoerker) in the northern port, and which will be included in the free port—2,350 feet, at 140 kroner per foot, 329,000 kroner.

(c) All the expenses which the harbor board has had or will have, under the provisions of article 4, and which are not related to the aforementioned lands (a), wooden quays (b), adding thereto the loss on account of interest. From this total there will be deducted, however, the expenses incurred by the harbor board in the construction of the east end of the eastern dike in the southern basin, which is to be used as a wharf for vessels larger than those which heretofore have been able to use the same; in other words, all expenses that are necessary to deepen the front of the mole in order to increase the height of the wooden quay under water and also for the construction of a macademized roadbed on said mole.

(d) The loss in the quotation of the bonds issued by the harbor board for the construction of the freeport and the commission paid for the issuance of said bonds.

2. Of the total amount of these respective sums there will eventually be made a reduction of the values of the lands (by taxation) which have been set aside for the construction of the steam winches. This reduction will take place on the day the land will be turned over for the purpose mentioned.

ART. 30. The payment of the surplus to the port authorities (in accordance with art. 29) will be made at the time dividends are paid to bondholders.

ART. 31. The secretary of the interior can permit the port company to increase their capital over 4,000,000 kroner, by issuing more bonds or by raising a loan, only with the consent of the legislative powers.

ART. 32. If circumstances make it desirable, there may be included within the free port land belonging to the harbor board situated to the north of the free port and including the walls of the old wharves; and the use of this land will then be confided, by special arrangement, to the free port company. In order to obtain the incorporation of this land the free port company must before the expiration of 10 years since the opening of the free port file a written request and prove that at least three-fifths of the lands in the northern part of the free port as indicated in article 28 have been made productive. The port authorities may, after obtaining this land, lease the same for a maximum period of 10 years. The lessee will at all times be bound by this period; in case the land is incorporated in the free port the right is reserved to the free port company to evict the lessee at the time of the incorporation, although the lease may not have expired. The eviction will, however, be compensated by an indemnity paid by the company and agreed upon by experts.

By special arrangement between the free port company and the respective proprietors, and subject to the legislative approval, lands adjacent to the free port may be included therein. They will continue to be private property, however.

ART. 33. During the life of this charter no others can be granted for the establishment and management of a free port within the port of Copenhagen.

ART. 34. Twenty-five years after the opening of the free port the State will be authorized to demand at any time from the free port company the transfer of all its property as well as of the reserve fund, or that the same should be transferred to the harbor board. If this should happen the State or harbor board will assume responsibility for the bonded loan issued by the company with the approval of the secretary of the interior, and will furthermore pay to the bondholders the value of their bonds according to the average quotations which they may have had on the Copenhagen Stock Exchange during the last 10 years. The average for each year will be arrived at by taking one-twelfth of the total of the average highest and lowest quotation for each month. However, no bondholder will be required to have his bonds redeemed at less than par; on the other hand, they can not demand reimbursement at a higher premium than 125 per cent.

ART. 35. If the company should violate in any way any of the obligations herein mentioned, the secretary of the interior may have the charter annulled by judicial sentence, and in such case the company will be obliged to vacate the territory of the free port within a period fixed by the secretary of the interior and remove its buildings or other improvements or turn them over to the Government for the value of the material as appraised by experts.

ART. 36. With the exception noted in preceding article No. 35 the secretary of the interior reserves the right to decide on every question subject to interpretation, so that such questions can only be taken before the courts by agreement with the secretary.

ART. 37. This charter can not be transferred to any other party without the consent of the secretary of the interior.

Department of the interior, April 27, 1892.

INGERSLEV.

Rules for the Administration of the Free Port of Copenhagen.

1. There is reserved to the anonymous free port company the execution of all works in connection with transportation, packing, etc., of the merchandise which may be deposited in the free port outside of the lands and buildings which have been leased. The company may therefore prohibit other parties to carry on work of this nature without its consent. It is not necessary, however, to obtain the permission of the company to carry on transportation by hand or on ordinary carts—merchandise to be loaded or unloaded merchandise not included—over the territory of the free port. Nor is this permission necessary for the crews of the vessels anchored within the free port in order to carry out such work as may be assigned to them.

2. For all work carried out by order of the company as well as for depositing packages in the warehouses or in open spaces belonging to the company, the interested parties will pay the fees according to the tariff promulgated by the secretary, which will also contain the rates referring to rents either for a fixed period or for an indefinite period and which will be subject to abrogation by giving a notice in advance for the period of days indicated therein. These general rates are only applicable to the open or closed depositories within the free port, while in regard to other leases and especially in regard to leases of lands for factory purposes special arrangements will be made in each case with the company and submitted for the approval of the secretary.

3. For each lot of merchandise which may be the object of the manipulation before mentioned (including transportation), the interested parties must present to the company—besides other necessary documents, such as manifests, etc.—in the first place, a statement which will contain a declaration as to the class of merchandise, its rate or measurement, marks, number of pieces and destination, and in the second place, the order specifying the nature of the work to which the merchandise is to be submitted, and in case of insurance the statement should state the sum and the nature of the risk. (See art. 7.) These two documents will be signed by the party giving the order or by the person which the interested party may have indicated to the company as being authorized to sign for him. Blank forms for this class of documents will be sold in the offices of the company.

4. When the company, after investigation, has found no reason to refuse execution of the order and has received the documents above mentioned and for which it will issue receipt on request, it will be obliged to execute the order as soon as possible.

5. For the transportation by railroad—transportation which will be carried out by the company—the

same rules will apply as govern merchandise carried on State railways, excluding, however, the regulations referring to rates and taxes and including such modifications as circumstances may demand.

For any other transportation which the company may carry out, the rules and regulations now in force in regard to land and maritime transportation will be applied. For the storage of merchandise by the company the rules and regulations hereafter stated in paragraphs 15 to 25 will be applicable.

6. The company will always insure the merchandise whenever requested to do so and whenever it is possible against fire or other damage (par. 3) with the insurance companies whose names will be always on file in the offices of the company.

The free port company is not required to accept any insurance against fire for a period of less than three months. It is not responsible for any losses which may occur by failure of an insurance company to make payment; this loss will be distributed among all the parties having suffered damages in proportion to their respective losses and to the total of the compensation obtained. Whenever insurance on merchandise is requested from the free port company the latter is authorized instead of the petitioner to determine the conditions of insurance and to eventually settle all matters between the insured parties and the insurance company. The insurance will be considered valid as soon as the company has notified the insured party that the insurance has been arranged. No increase of the amount insured can be made after a request for insurance has once been filed with the company.

7. Unless otherwise provided for in these regulations the company may ask payment in advance for any services which it may render. It is especially provided that whenever the company brings suit against the right of the interested party in regard to merchandise which may have passed through the free port it has the right that the necessary sum for the prosecution of this suit be deposited with it.

8. The company is authorized to establish the rules governing the circulation within the free port, admission to its buildings, etc., as well as to take such steps as may be necessary to make these rules effective.

9. The company shall keep the regulation books for accounting purposes. (See especially par. 12.)

10. The company shall prohibit all its officials, employees, or workmen to receive under any form presents or tips in connection with their duties in the free port and will see that this prohibition is duly carried out.

11. The contracts for the lease of storerooms and sites will be drawn up in accordance with the forms annexed to these regulations.

12. The lessees will be obliged to keep deposit books, in accordance with commercial rules, for the merchandise which may be deposited in the free port.

The lessees of buildings for carrying on retail commerce and for industrial purposes and who may have been subject to certain restrictions at the time the contract was made in regard to their business in the free port, whether such restriction applies to the class of merchandise or to the way in which the same should be disposed of, are for this reason compelled to submit to the regulations for control which the company may adopt for the purpose of carrying out the conditions of these contracts. It is especially

provided for that the retail merchants can only sell those articles which are exclusively used for the provisioning of vessels, and upon a request therefor having been received from the shipowner or his representative. This request, on which the receipt of the article must appear, will be filed in the books of the retail merchant.

The lessees can have work carried on in the quarters leased to them by their own workmen who must be provided with identification plates which the company will furnish. When a workman stops working for one of these lessees he must deliver his identification plate to the lessee who will return same to the company.

13. No quarters or lots, or any parts thereof, can be subleased without previous written consent of the company.

14. The lessees can not use within the free port any other lights or motor power except that furnished by the company at a fixed rate.

15. The company may refuse to receive articles for storage whenever there is sufficient cause for such refusal.

16. The company has the right to verify by reweighing the weight of any merchandise as declared in the documents. In case any merchandise has been declared at less than its weight the company will be entitled to receive the fees for the undeclared weight plus the expenses which the reweighing may have occasioned.

The company has also the right to open any packages or containers to verify whether the articles have been correctly declared. If the declaration of the contents appears to have been correct the company will have to bear any expense connected with the opening of the packages. On the other hand if the declaration of the contents was incorrect the interested party will have to bear such expenses.

17. For any merchandise placed in storage the company will issue at the request of the interested party and subject to the payment of the stamp tax, either a certificate of deposit and guarantee as provided for in law No. 34 of March 30, 1894 or a certificate of receipt. Such certificate will be made out in accordance with the forms annexed thereto.

18. At the request of the interested party the company must state in these certificates of deposit the amount of the expenses to which they will be subject during the period indicated in the certificate as they will appear from the books of the company.

19. When such certificate of deposit has been issued for a lot of merchandise they may be later on returned with their respective receipts and new certificates may be demanded on the payment of the fee of 50 öre.

When partial certificates are desired corresponding to a fraction of a lot of merchandise and for which certificates have already been issued, these certificates may also be extended upon the payment of a fee of 50 öre for each new certificate, and upon condition that the older certificates be returned together with their respective receipts.

20. The company has the right to have at its own incentive and at the expense of the interested party carried on such work as may be necessary for the preservation of the stores of merchandise.

21. Stores of merchandise will be received after the issuing of the certificate of deposit and guaranty,

which has been issued in accordance with the rules laid down in the law of March 30, 1894. In the same manner they will be returned upon the surrender of such certificates which must have thereon a note canceling the certificate or be provided with a receipt signed by the depositor or his representative according to the forms attached to these regulations. The company may deliver samples of stores of merchandise, but only against the receipt thereof having been noted on the certificate of deposit, and in case a certificate of guaranty was issued, a similar note must be made thereon.

22. The depositor is personally responsible for storage expenses which may be incurred. Any interest which may eventually accrue from the amount deposited in favor of the company and mentioned in the law of March 30, 1894 (par. 8), will belong to the company. The company is required to liquidate upon request any account referring to stores of merchandise.

23. The company will keep books in detail for every deposit made; special books will be kept for the certificates of deposit and guaranties which it may issue and in which books the texts of the certificates will be transcribed literally, including all notes that may have been made thereon after their issuance; all this in accordance with paragraph 7 of the law already mentioned.

24. Whenever the balance in favor of the company for storage, transportation, preservation, and insurance of stored merchandise will exceed three-fourths of the value placed thereon by experts named by the tribunal of commerce and navigation, or if such merchandise or part thereof is threatened with deterioration, the company will have the right to sell all or part thereof within eight days after notice of such impending action has been published—three times in the *Berlingske Tidende* or posted at the Copenhagen Stock Exchange, and the interested party has been notified by registered mail at his domicile or place of business—that such sale will take place within eight days after the publication of such notice. Should there be any balance after all the claims affecting this merchandise have been settled, the company will turn the balance over to the interested parties. If this balance has not been claimed within 10 years after the sale, it will become the property of the company.

25. The responsibility of the company for merchandise deposited in its warehouses is fixed by the law of March 30, 1890, for all cases in which a certificate of deposit and guaranty has been issued.

In case the company has only issued certificate of receipt, its responsibility for the custody and delivery thereof will be determined by the general rules of the laws referring to custodianship. In this case responsibility will cease whenever the damage be of such a nature that it might have been discovered through ordinary examination, and if the interested parties had not called the attention of the company to the damage before removing the merchandise or had the same inspected legally in any other way.

The present regulations to remain in force until further orders.

Department of public works, October 19, 1894.

Law Providing for a Commission to Select a Site for the Free Port in Lisbon, Portugal.

[Translation.]

In the name of the Nation, the Congress of the Republic decrees and I promulgate the following law:

ARTICLE 1. Within the period of 60 days from the promulgation of this law the Government will appoint a technical commission to study the best site for the establishment of the free port in Lisbon.

Having chosen the site, the commission shall elaborate a complete plan of the works, giving all the details.

ART. 2. As soon as the commission to which article 1 refers presents its work, and this is approved by the council of ministers, the Government will adjudicate by competition, announcement of which will be made 180 days before, the construction and operation of the free port of Lisbon, the concession not exceeding 60 years.

In the free port can be loaded, unloaded, or be deposited free from duties any kind of merchandise except oil (olive) and wine.

It is also permitted within the free port to perform all refining processes, packing, mixing of merchandise and its transformation into other commercial products in factories or other commercial establishments.

ART. 3. The adjudication to which article 2 refers shall be in accordance with the following stipulations:

First. That the free port shall consist of quays, wharves for loading and unloading, warehouses, and all the necessary barriers for the fiscal service, according to the plan approved by the Government.

Second. That the Government shall give to the concessionary the permission to operate and run the free port during 60 years without subvention or guarantee of interest, but ceding freely the necessary lands, if they belong to the State, and guaranteeing the expropriation, if the lands belong to others.

Third. That no person or company shall be admitted to the competition who has not previously deposited in the "Caixa Geral dos Depositos" the sum of 50,000 escudos (about \$47,500) in cash or in bonds of the public debt according to market value.

Fourth. That the concessionary must, within 15 days from the date of the adjudication, deposit 5 per cent of the total amount calculated as necessary for the works, in cash or in bonds of the public debt according to market value, on which he shall receive the interest, if the deposit is in form of bonds, or the interest stipulated at the "Caixa Geral dos Depositos," if the deposit is in form of money. Said money deposit can not be removed until the works are completed and are accepted as conforming to the plan presented at the competition.

Fifth. That all the works and buildings will serve as a guarantee to the State for the exact fulfillment by the concessionary of all of the obligations contracted by him, in which is included the payment resulting from the expropriations for public use, to which stipulation No. 2 refers.

Sixth. That in the works Portuguese laborers shall have the preference, and that the period of time from

the definitive signature of the contract within which the works must be finished and in perfect operation will be stated in the conditions of the competition, the concessionary paying a fine of 100 escudos (about \$95) a day for every day elapsing from the end of the agreed-upon period to the completion of the works.

Seventh. That the vessels and goods, taken as a whole, which profit by the free port shall continue subject to the fiscal law regarding existing free general warehouses.

Eighth. That the vessels simultaneously transporting merchandise from or to the free port, or any other, shall enjoy the benefits of the preceding stipulation.

Ninth. That the rates on loading, unloading, and storing shall be fixed by the Government in the program of the bids, and those of refining and all others shall be fixed by agreement between the Government and the concern undertaking the work, all alterations in these rates to be made only by agreement.

Tenth. That within the inclosure of the free port night work will be permitted for coming alongside, loading, and unloading; as a rule, however, only employees engaged in this kind of work and in vigilance work can pass the night there.

Eleventh. That inside of the inclosure of the free port retail trade is prohibited, and no one is granted the right to consume products which have not come from the fiscal zone.

Twelfth. That the concessionary must preserve the wharves, quays, warehouses, and their dependencies in good condition, obligating himself to restore them freely to the Government at the end of the period of concession.

Thirteenth. That the movable material, also preserved in good condition, shall be, when turned over to the State, paid for according to its value in accordance with the appraisal made by two experts appointed by the Government, two by the concessionary, and one by the supreme court of justice.

Fourteenth. That the undertaking, for all legal purposes, must be considered Portuguese and subject only to the jurisdiction of the Portuguese courts, all questions or doubts arising between the concessionary and the State concerning the execution of the present law and the respective regulations which shall be published later being, in the first place, submitted to arbitration as regulated by the Code of Civil Procedure.

Fifteenth. That the gross profits of the operation, over and above the annual installments necessary for amortization, during the length of the concession, of the sum at which the execution of the works was calculated, must be divided equally between the Government and the concessionary.

Sixteenth. That the award of the bids shall be based upon the rate of interest in relation with the annual installment referred to in the preceding stipulation, the concern offering the lowest rate being given the preference.

Seventeenth. That the enterprise shall be free from all direct taxes, excepting the industrial tax and the property tax, and likewise all material and machinery necessary to the construction of the port works shall be exempt from customs duties provided they are not manufactured in Portugal.

ART. 4. The preceding stipulations being respected, preference is based upon the following:

1. The shortest number of years spent in the construction of the free port, in order that it be put into complete operation.

2. The shortest number of years for the operation of the port by the concessionary.

ART. 5. The Government has authority to regulate the hygienic conditions and the police dispositions which have to be observed in the installation of any industry within the port.

ART. 6. The Government will make all the regulations necessary to the fulfilment of this law.

ART. 7. All legislation to the contrary is hereby revoked.

The minister of finances and of fomento order this to be printed, published, and circulated.

At the palaces of the Government of the Republic.
June 13, 1913.

MANUEL DE ARRIAGA,
AFONSO COSTA,
ANTONIO MARIA DA SILVA.

Royal Decrees Providing for Establishment of Free Ports at Cadiz, Barcelona, and Bilbao, Spain.

[Translation from Gaceta de Madrid, Sept. 24, 1914.]

MINISTRY OF FINANCE—STATEMENT OF FACTS.

SIR:

The so unexpected as well as grave crisis which modified radically the relations of the great European powers, has not only disturbed the mercantile traffic between the belligerents, but also affected in a prejudicial way the economic development of those countries which fortunately can remain neutral. The dangers of navigation, the interruption of drafts by reason of the moratoriums, the difficulties which shipments encounter by reason of the monetary problem of provisioning, the closing of important ports of consumption, transit, and deposit, may be said suddenly to have deprived commerce in general to a great extent of the advantages of modern progress. The world's commerce having been surprised by such enormous obstacles, efforts are being made everywhere to find means to lessen the losses, to harmonize the exports for the exchange of drafts, to open a way for credit operations, and to find possibilities for carrying out commercial transactions. Notwithstanding the numerous difficulties which the Government had to meet both at home and on behalf of America, it is, nevertheless, determined to adopt without delay the steps for resolving so far as possible such important problems.

With the cooperation of the Bank of Spain the difficulties surrounding drafts and soluble credits are being overcome and in order to favor transit and warehouse operations the Government believes itself to be in a position provisionally but urgently to adopt means which may serve to attract and protect transit trade and assure a safe basis to credit by means of security on the deposits of merchandise.

Problems of transit and of deposit of foreign merchandise are fortunately being studied with the concurrence of public opinion and are being debated in Parliament in connection with the petitions for the establishment of free zones and free warehouses which have been presented several years ago. The petitions for the establishment of free zones have not yet reached

a parliamentary status, but those regarding free warehouses have been brought twice to the attention of the Cortes (Senate and House of Representatives in Spain) one on October 23, 1903, and the other on June 13, 1911.

This last project was discussed and approved by Congress and favorably reported on by the Senate committee on December 7, 1912, the report remaining open for discussion at the closing of that legislature.

In view of these antecedents, it is not too much to assume that the foregoing report has the support of public opinion and the approval of Parliament, manifested by the vote in Congress and by the favorable report of the Senate committee, and consequently the Government believes that with such a project as a base, in view of the pressure of the circumstances, it can authorize the establishment of a free warehouse in the port of Cadiz temporarily, and in the nature of an experiment, under reserve of amendments, as to places and forms which may be voted on by the Cortes, with so much more reason as the authorization only implies some modifications in the present system of the commercial warehouse which has been in operation for many years in that port.

The authorization will be for the present limited to the port of Cadiz, because aside from the fact of having been designated by the Chamber of Commerce of Habana, it possesses an appropriate building which can be used without delay, and because the representatives of that city have offered immediately to form the company which is to assume the customary responsibilities in regard to the depositors and the treasury.

If this experiment will yield the expected results, the Government will continue to study the problem of free zones and support the initiative plans of other ports which, on account of their circumstances, claim these facilities for the development of their traffic.

While it is not necessary to enumerate at present the advantages of free warehouses on account of their having been amply explained at the time the said projects of law were presented, it is proper, however, to allege as a justification for the urgency that at this time, when German and Belgian warehouses can not be operated, such free warehouses are the best means of attracting navigation to Spanish ports and of offering to commerce in general an adequate means of keeping merchandise in a safe place within easy reach and at the disposal of consuming ports without excessive expenses or waste of time or great fiscal formalities.

Based on these considerations the undersigned minister, in agreement with the council of ministers, has the honor to submit for the approval of Your Majesty the following project of decree.

Madrid, September 22, 1914.

Senor:

A. L. R. P. of Your Majesty,

GABINO BUGALLAL.

ROYAL DECREE.

In agreement with my council of ministers, I have decreed as follows:

SOLE ARTICLE. The minister of finance is authorized to take the necessary steps to put into operation, with as little delay as possible, the free warehouse which the representatives of Cadiz propose to establish in that port, following as closely as possible the terms of

the project of law on this subject, which was approved by Congress and favorably reported on by the Senate committee on December 7, 1912.

Given at the palace on September 22, 1914.

ALFONSO.

The Minister of Finance.

GABINO BUGALLAL.

[Translation from Gaceta de Madrid, Oct. 25, 1914.]

MINISTRY OF FINANCE—ROYAL ORDER.

VERY ILLUSTRIOUS SIR:

Having examined the petitions presented by the municipal government and mayor of Cadiz, dated September 2 and 19 last, requesting that concession for a free warehouse large enough to meet actual conditions be authorized to said capital:

Having examined the royal decree of the 22d of September, by which, acceding to the foregoing petition, this ministry is authorized to put into operation with as little delay as possible the free warehouse which has been requested, and which is to conform as much as possible with the terms of the project of law on this matter presented to the Cortes on June 13, 1911, approved by Congress and favorably reported on by the Senate committee on December 7, 1912;

Having examined the petition of the chamber of commerce, industry, and navigation of Cadiz, dated October 8, requesting that the concession be granted to the board of harbor works of that city with power to transfer the same to a mercantile corporation; that the concession should not be granted for any definite period, although a minimum of four years should be fixed for its suppression (cancellation), and that certain explanations and amplifications in regard to the project of law be accepted by amending the same so that among the articles of merchandise to be deposited there be included leaf and manufactured tobacco;

Having examined the request of the board of harbor works of Cadiz dated October 14, accompanied by a copy of the authorization granted to it by the ministry of public works in compliance with a royal order of the same date, in which they ask that they be intrusted with the direction, administration, and exploitation of said free warehouse. The petition is further accompanied by plans of the lands and warehouses which it intends to establish in the suburb of Extramuros. It also assumes the obligation of reimbursing the State for any expenses the latter may incur by reason of intervention and surveillance of the operations of said warehouse. Further, the right is reserved to convey or transfer the said concession to a mercantile company, if there be any;

Considering that the project of law approved by Congress and favorably reported on by the Senate committee grants preference of concessions for free warehouses to boards of harbor works, and that the board of Cadiz, authorized by the ministry of public works, has complied and offers to comply with all the obligations contained in article 2 of said law, reserving the right to transfer the concession to a mercantile company which would be better equipped economically to develop such an important improvement, which request for transfer would always be subject to the condition that it be made to a Spanish company;

Considering that there exists in Cadiz at the present time a commercial warehouse operated by the treasury in accordance with the provisions of section 3, chapter 7, of the customs ordinances, and that the plan now being considered for the establishment of a free warehouse would involve merely an enlargement of the powers of the existing commercial warehouse in order to grant better facilities;

And considering that, while the requests for the admission into the free warehouse of leaf and manufactured tobacco, subject to guaranties necessary to protect the treasury, may be given consideration, no steps can be taken at present to amplify the operations of transformation of merchandise which should be the object of more detailed study, it being obligatory that they conform in reference to this important point to the provisions of the law reported on by the Senate committee:

The King (q. D. g.—whom God may guard), in agreement with the proposals of this general office, has decreed as follows:

First. That the petition presented by the Cadiz board of harbor works be granted, and that in virtue thereof there is authorized the establishment of a free warehouse on the land and in the buildings that have been offered; an examination of the latter is to be made to determine the repairs and changes which may be necessary to put them into a safe condition.

Second. All foreign merchandise now being admitted in the Government's warehouse in said port shall also be admitted into the free warehouse, as well as leaf and manufactured tobacco and Spanish merchandise, the export of which is permitted. The latter merchandise will lose its nationality upon entering the warehouse and be treated the same as goods of foreign origin. Packages containing foreign tobacco will be sealed on arrival at the warehouse and no change of wrappers nor division of their contents will be granted except when exclusively destined for the concessionary company or for export.

Third. No merchandise can remain in the warehouse for a period exceeding four years. At the expiration of this time it shall be exported or entered for consumption in Spain.

Fourth. The following operations shall be permitted in the warehouse, under the surveillance of the administration and of the representatives of the chambers of commerce which may request it, whenever an offer is made to assume the expense of such surveillance:

- (a) Changing the containers of merchandise.
- (b) Dividing merchandise into commercial grades.
- (c) Mixing one with another to obtain commercial grades.
- (d) Shelling and roasting of coffee and cocoa.
- (e) Tanning of hides.
- (f) Pulverization of woods.
- (g) Washing of wool.
- (h) Extraction of oil from copra and from oleaginous seeds.
- (i) All operations tending to increase the value of the merchandise in deposit without essentially changing its nature.

The Government may amplify the operations for transformation of merchandise referred to in the preceding paragraph after publishing the request for such changes in the *Gaceta de Madrid* and in the *Boletín Oficial* of the Province of Cadiz, so that any claims against such changes may be filed within one month.

Such claims will be acted upon by the Government within 60 days, and failure to make a decision within that time will automatically approve the petition.

Fifth. Domestic as well as foreign merchandise entering the free warehouse will be exempt of the payment of transport tax and dues for port works collected in the port, as well as of any other Government, provincial, or municipal tax, and only merchandise entering into consumption can be taxed.

Foreign merchandise which is reexported from the free warehouse shall also be exempt from such imports and excise taxes. Domestic merchandise to be exported will pay the transport tax and dues for port works they would have had to pay in case of direct exportation without entering the warehouse. The export duties will also be collected on all merchandise subject thereto.

Sixth. Merchandise originating in the free warehouse upon entry into Spain will pay import and transportation duties and other charges, as if they had been imported directly from abroad, and will be subject to the rules governing importation as set forth in the tariff law and customs ordinances.

Seventh. The State will not guarantee the duration of the free warehouse, but while it is in existence the merchandise stored therein will be protected by the laws and will never be subject to reprisals, not even in case of war with the countries of which the owners, senders, or consignees of said merchandise may be natives.

Eighth. The concession is not granted for any limited time, and the board of harbor works may propose and this ministry may convey at any time the exploitation of the free warehouse to another Spanish commercial company which would offer sufficient guaranty to fulfill all the conditions which the management of the warehouse requires.

Ninth. The board of harbor works may ask for the cancellation of its concession of the free warehouse upon showing that it brings no results or that these results are prejudicial to its interests.

If the warehouse was being exploited by a commercial company, as set forth in the preceding article, this company may also propose the cancellation of the concession by giving its reasons for such request, but the Government before agreeing to such action will submit the request to the board of harbor works for it to decide whether it would again take charge of the warehouse. The Government may suppress the free warehouse of its own initiative, if it is shown that such action would be to the interests of the country. From the date on which the suppression of the warehouse should be agreed upon, no merchandise other than that which prior thereto had left its place of origin shall be admitted therein, but those already stored therein may remain there until they shall have remained therein for a period of four years. In this case the Government shall take charge of the store-rooms and equipment for the period during which such merchandise may remain in the warehouse, without thereby giving to the owners of such merchandise a right to a larger indemnity than the amount which may be collected through the tariffs in force in such free warehouse.

Tenth. The board of harbor works or the mercantile company in charge of the operation of the free warehouse may issue warrants or certificates of merchandise which may be negotiated at the banks, in

accordance with the provisions of the article of the Code of Commerce on this subject.

Eleventh. All the laws, regulations, and treaties in force in regard to industrial property, trade-marks, patents of inventions and commercial names, will be in force in the warehouse as well as all other provisions of by-laws, inasmuch as the latter do not conflict with the limited precepts of this royal order.

Twelfth. It is prohibited to reside, consume, or sell at retail within the boundaries of the free warehouse. An exception is made in the case of agents charged with the surveillance and of the personnel which is deemed indispensable for its safe-keeping and custody and the families of the same.

Thirteenth. Permission to enter into the free warehouse is granted to the owners and consignees of the merchandise to such part as they may be entitled to, to customs employees and to revenue agents designated by the latter, to employees of the concessionary company, and to duly authorized representatives of the chambers of commerce.

Fourteenth. The company enjoying the concession of the free warehouse will reimburse the State for all expenses caused the latter for its intervention and surveillance of said warehouse, the amount of these expenses to be determined at the proper time. Failure to pay for four alternatives or successive quarters will carry with it, ipso facto, the annulment of the concession, provided a request for payment has been made to the debtor company and without depriving the Government of the right to recover this debt by judicial proceedings.

Fifteenth. The merchandise now stored in the existing commercial warehouse of Cadiz may be transferred to the free warehouse at the request of its owners at the expiration of the term for which storage charges have been paid. It may also be transferred sooner, but in this case its owners would not be entitled to a return of any sum paid for storage.

Sixteenth. The board of harbor works will present to this ministry as soon as possible the tariff schedules which are to be applied to the various operations to be carried on in the warehouse, as well as the regulations which are to be observed in its interior management.

Seventeenth. This general office will take such steps as may be pertinent for the proper intervention and surveillance of the free warehouse.

By royal order, I transmit these presents to your excellency for your knowledge and action. May God guard your excellency for many years.

Madrid, October 22, 1914.

BUGALLAL.

SIR DIRECTOR GENERAL OF CUSTOMS.

[Translation from *Gaceta de Madrid*, Oct. 25, 1916.]

MINISTRY OF FINANCE—STATEMENT OF FACTS.

SIR:

It behooves the Government at this highly important historical moment to assure, by all means within its reach, that Spanish economic life be provided with all the elements that may strengthen its power and increase the development of our mercantile and industrial forces.

In addition to the measures already submitted to the Cortes with the permission of Your Majesty,

there is the decree which is to-day submitted for your royal signature by the undersigned minister.

It begins by granting the concession of the commercial warehouse (bonded) in the port of Barcelona to a company constituted in the form requested by the mayor-president of the municipality of that great city and the representatives of the department of public works.

There certainly do not exist any fundamental reasons which may be alleged against turning over to the vital forces of Barcelona the carrying out of this patriotic undertaking, not even in regard to intervention of its municipal government, because the contemporaneous movement in favor of municipal ownership of great public utilities and the same tendencies of Spanish legislation maintained by all the Governments, favor the idea of this concession, which, in the form in which it is granted, involves a character of public convenience and of ample social solidarity for an experiment in Spain of a system by which only the longed-for efficiency may be obtained.

In any case, the guaranties which surround the concession and exercise of high tutelage and of special safeguard of the general interests and of the special interests of the treasury, which are intrusted to the ministry of finance, exclude the possibility of any damage or perturbations which otherwise may have been alleged or feared by timid elements.

In view of the above statements, Your Majesty's Government may deign to grant complete satisfaction to long cherished aspirations of the municipal government and of the economic entities of Barcelona, assuring thereby the progress of its rich resources and in general, the glory and prosperity of Spain, which is interested to have at its disposal on the day of universal peace, a powerful element of interchange and of mercantile navigation in the Mediterranean Sea.

And in virtue thereof, the undersigned minister submits to Your Majesty the following draft of a decree.

Madrid, October 24, 1916.

Sir:

A. L. R. P. of Your Majesty,

SANTIAGO ALBA.

ROYAL DECREE.

On the proposal of the minister of finance and in agreement with my council of ministers, I have decreed the following:

ARTICLE 1. The concession for a commercial warehouse in Barcelona is authorized to a company constituted as follows: The municipal government of said capital as representing the city; the presidents or delegates of the following corporations: department of public works, board of port works, the Catalan Agricultural Institution of San Isidro, official chambers of commerce, navigation and industry, and a representation of the labor associations dealing especially with maritime undertakings.

ART. 2. The company referred to in the preceding article shall submit to the ministry of finance, within the period of one year from the date of this decree, the following:

A. The plans and an explanatory statement of the organization to be established in the warehouse, as well as its location within the port.

B. Statement of the operations which the company intends to carry on therein, and a schedule of the duties to be applied to each of them.

C. Agreement, executed in legal form, recognizing specifically the obligation to reimburse the State for the expenses which it may incur by its intervention and surveillance of the warehouse. The settlement of these expenses will be quarterly. Failure to pay for four alternative or successive quarters, after demand for payment has been made of the company, will result in the cancellation of the concession.

The minister of finance, after such investigation as he may deem necessary, will determine the character of the operations and duties to be authorized and likewise decide upon any other points contained in the petition or petitions of the company and which he may consider essential for the safeguarding of the public interests and the resources of the Treasury.

ART. 3. The concessionary company will have authority to issue such bonds or certificates of credit as it may deem necessary, and to lease one or more of the utilities to any mercantile concern, all such acts subject to the authority of the minister of finance.

ART. 4. All resolutions which may hereafter be taken for the execution of the present decree and the establishment and development of the commercial warehouse of the port of Barcelona shall be published in the *Gaceta de Madrid*, so that within the period of 30 days from the date of such publication the claims may be filed by any entities or individuals who may consider themselves prejudiced by the resolution taken.

The council of ministers, at the instance of the minister of finance, will pass upon any such claim, and their decision will likewise be published in the *Gaceta de Madrid*.

ART. 5. For every matter not specially regulated by this decree in regard to the commercial warehouse in Barcelona, there will be applicable, first, the royal decree of September 22, 1914, and its supplementary amendments.

ART. 6. The minister of finance, after hearing the board of directors of the company and having the report of the council of state, will issue the necessary regulations for the management and operation of the new commercial warehouse.

Given at the palace on October 24, 1916.

ALFONSO.

The secretary of finance,
SANTIAGO ALBA.

MINISTRY OF THE TREASURY—A ROYAL DECREE.

At the proposal of the ministry of the treasury and in accord with the council of ministers I issue the following decree:

ARTICLE 1. A free depot is allowed in Bilbao to a consortium, which will be formed of the provincial presidents and delegates of Vizcaya, of the official chamber of commerce, industry and navigation, and of the council of labor of the port mentioned.

ART. 2. In the said depot all merchandise will be admitted, and such operations will be authorized as are permitted and authorized in the depot of Cadiz, in accordance with the royal decree of concession of October 22, 1914.

ART. 3. The consortium shall present before the expiration of a year from the date of this decree, to the minister of the treasury:

(a) The statutes, regulations, plans of the land and buildings, and an explanatory memorandum of the organization and the establishment of such depot;

(b) Report of the operations proposed by the consortium and the tariffs applicable in each case; and

(c) A resolution, legally executed, expressly recognizing the obligation to reimburse the State for such expenditures as may be occasioned by the intervention and guarding of the depot. The liquidation of the reintegration of these expenditures shall be made quarterly. Default of four quarterly payments, alternate or successive, will cause the cancellation of the concession, previous to the payment of the payment of the partnership consortium.

ART. 4. The concessionary consortium shall be empowered to issue such bonds or credits as it may deem proper and to lease one or more of its services to a mercantile organization, always subject to the authorization of the ministry of the treasury.

ART. 5. All the resolutions that may be dictated for the execution of this decree and the foundation and expansion of the free depot of Bilbao shall be published in the *Gaceta de Madrid* so that within the period of thirty days from the date of such publication, allegation of such rights, wholly or in part, which are considered affected in some manner by the resolution agreed upon, may be made.

The council of ministers, at the instance of the ministry of the treasury, will decide in each case the foregoing, and its decision likewise published in the *Gaceta de Madrid*.

ART. 6. To all that which is not regulated by this decree in regard to the free depot in Bilbao, the royal decrees of September 22, 1914, and October 24, 1916, in regard to the concession of those of Cadiz and Barcelona, and their final disposition shall be applicable.

Given at Santander the 30th of July, 1918.

ALFONSO.

The minister of the treasury,
AUGUSTO GONZALEZ BESADA.

Bill Providing for the Establishment of Free Zones in French Maritime Ports.

[Translation.]

Ministry for foreign affairs.—French Republic.

America—United States: Re information concerning the free ports and zones of France.

The ministry for foreign affairs presents its compliments to the American Embassy at Paris and, referring to its note of the 9th of this month, has the honor to communicate below the information furnished by the ministry of commerce concerning the free ports and free zones of France.

As the foreign office has already had occasion to inform his excellency, Mr. Sharp, if there exist in France no ports enjoying the system known by the name of free zones and free ports, the question of the organization of this system has none the less formed the object of several projects due to parliamentary or governmental initiative. Special mention should be made in this connection of the following:

The bill of Messrs. Bergeon and Chevillon laid before the Chamber of Deputies on July 10, 1914.

The question, which was again raised at the time of the discussion in the Chamber of Deputies of the bill which resulted in the law of December 29, 1917, on the system of warehouses, has received no solution.

The ministry for foreign affairs, in annexing the latter document to the present note, deems it well also to join a volume published in 1912 by the ministry of commerce and which contains information concerning the organization and working of the commercial maritime ports of France.

Paris, September 23, 1918.

[Translation.]

No. 343.—Chamber of Deputies, Eleventh Legislature, session of 1914.

Appendix to the minutes of the second sitting of July 10, 1914.

Bill providing for the establishment of free zones in maritime ports.

(Referred to the commission committee on commerce and industry.)

Introduced by Messrs. Bergeon, Lenoir, Candace, Elile-Favre (Haute-Savoie), Lefol, Diagne, Auguste Girard (Bouches-du-Rhone), Chevillon, deputies.

PURPOSES OF THE BILL.

GENTLEMEN: The draft of a law providing for the creation of free zones in French maritime ports which appeared to be on the point of being enacted into law during the Ninth Legislature was tabled for two different reasons. One was to postpone the discussion of the question of free zones to coincide with the date on which the chamber would take up for debate the customs law of March 29, 1910. The second reason was a resolution which had been introduced providing for the expansion of the bonded warehouse system. This project of expansion which for the last four years has been under investigation by an extraparlimentary committee has not as yet been referred to either of the two chambers.

Furthermore, the system of warehouses (no matter how liberal our views may be on the subject) will never grant the same facilities as free zones freed from all formalities. The merchant desires to be able to operate freely, which is something he can not do in a warehouse where he is under obligation to deal with a personnel not under his control.

Therefore, even if the system of warehouses should be greatly improved that would not be an argument against recourse to the more modern institution of free zones.

Bonded warehouses and free zones both have their advantages and both can be maintained at one and the same time.

In Germany, for example, where bonded warehouses are managed in an infinitely more liberal manner than in our country, it is perfectly understood that they do not preclude the maintenance of free ports and free zones, and the coexistence of both of them has given and does give uniformly excellent results.

It would be strange if France refused to make a trial of a free institution which is considered everywhere else as a pillar of support to the protectionist system. The purpose of the latter being to increase prices on the domestic market, a country subject to this system could not successfully continue to take part in international trade unless it reserved in its principal ports certain areas where foreign merchandise could be received free of duty in order to be reexported later.

Other countries have already set us the example: In addition to ports situated in countries with liberal customs policies, such as London, Liverpool, Antwerp, Rotterdam, it is to be noted that Hamburg, Copen-

hagen, Genoa, Trieste, Fiume, have all been provided with free zones, and since the beginning of the century, not only has none of these establishments been discontinued, but projects are now under consideration for establishing free ports at Salonica and at Alexandria. Thus around us the number of foreign ports which enjoy these facilities is on the increase, and the French ports which continue to be without these facilities are in a very disadvantageous position to provide freight for our merchant marine and to withstand the competition of their rivals in international trade.

It is possible and it is highly desirable to increase the traffic of our ports; this can be done by establishing free zones which will become manufacturing and industrial centers. It is time to give full consideration to and to act upon this project.

Such are the reasons which move us to urge upon our colleagues the enactment of the draft bill which follows:

BILL.

ARTICLE 1. In the cities possessing free ports, it shall be lawful, after a decree has been rendered upon investigation by the council of state, to admit merchandise, during a period of 99 years, free of all customs duties and internal consumption taxes, into any part of the port and its adjacent territories.

The decree cited above may not be promulgated except upon the demand of the chamber of commerce, which shall have been passed upon by the municipal council.

ART. 2. The portions of the public domain included in the free zone remain subject, in each matter which concerns them, to the appropriate authority.

The lands under the control of the public maritime domain, which will be recognized as essential to the operation of the free zone in order to establish thereon stores and warehouses, may be assigned to the chamber of commerce by decree of the council of state.

Further decrees may sanction the acquisition by the chamber of commerce of areas outside the public domain which are useful for the effective exploitation of the free zone by declaring them of public utility.

The procedure for the expropriation of such area 1841. shall follow the form prescribed by the law of May 3,

ART. 3. The proprietors of the areas comprised within the boundaries of the free zone may declare to the prefecture, within one month after the receipt of notice from the chamber of commerce, that they agree to abandon the said areas after indemnification. The indemnity to be paid by the chamber of commerce shall be fixed in accordance with the law of May 3, 1841.

In cases of property belonging to feeble-minded (incapables), to departments, communities, public institutions, or to the State, which is to be included within the boundaries of the free zone, this liquidation shall take place in accordance with the provisions of paragraphs 3 and 4 of article 6 of the law of December 22, 1888.

ART. 4. The chamber of commerce shall establish stores, sheds, railways, and the equipment necessary for the maintenance, transportation, or storage of merchandise upon the lands belonging to it or ceded to it by the State. It shall bear all the expenses necessary for this organization; it shall also defray the expenses for the surveillance of the free zone caused to the customs administration.

To indemnify the chamber of commerce for these expenses, it shall be authorized, if necessary, to collect certain tolls under the conditions fixed by the laws of April 9, 1898, and April 7, 1902, and fees for storage, maintenance, and transportation, according to tariffs established by the minister of commerce, upon the advice of the municipal council and the minister of public works.

In case of the discontinuance of the free zone, the lands, buildings, and equipment belonging to the chamber of commerce and which would not be needed by it in its work, will be sold or leased and the proceeds of such sales or leases will be applied toward the cancellation of debts or loans contracted by the chamber of commerce in connection with the establishment of the free zone.

The surplus, if any, will be remitted to the State, which should use the same for executing or completing port works in agreement with the chamber of commerce.

ART. 5. The chamber of commerce is authorized to grant temporarily the use of its land to individuals or to companies which will undertake the construction and maintenance of the buildings and equipment provided for in paragraph 1, article 4.

The concession is obligatory in case it refers to an industry, the establishment of which is authorized in the free zone.

These concessions are approved by the minister of commerce upon the advice of the minister of public works. They can only be granted to Frenchmen or to companies having as directors or managers a majority of French citizens or of foreigners authorized to take up their residence in France.

ART. 6. There shall be allowed in the free zone all operations tending to preserve merchandise, sorting, blending, or otherwise manipulating the same; the manufacture of matches, and the further manufacturing of foreign tobacco.

There may also be authorized, by decree issued upon advice of the consulting committee of arts and manufactures, new and extinct industries whenever it shall have been proven that on the date of the petition of the interested party there does not exist any identical or similar industry upon the customhouse territory.

ART. 7. Entry into free zones will be prohibited to merchandise originating in any country affected by any epidemic, such as come under the laws and regulations of the sanitary police; all products referred to in article 16 of the law of January 11, 1892; powder, arms, and ammunition, saccharine and its by-products, and printed matter in violation of copyright laws.

ART. 8. It is prohibited to reside within the free zone or to consume and sell at retail therein, except as provided for in paragraph 3 of article 10.

It is also prohibited to convey or to rent any space or building to persons or to companies who do not meet the conditions provided for in paragraph 2 of article 5.

ART. 9. All merchandise leaving the free zone to enter into domestic consumption will be subject to the duties of the general tariff and to the surtaxes specified in the law of January 11, 1892.

However, all such merchandise for which there shall be furnished to the customs administration the proofs necessary to establish their origin and the conditions under which they are transported will be taxed according to reduced schedule, which may be applied to it under the general customs laws.

Domestic or nationalized merchandise entering into the free zone from the customs territory will not be subject to any duties on reentering for domestic consumption, provided its origin has been duly proven.

ART. 10. The decree establishing the free zone will determine:

First. The boundaries of the zone, the method of inclosure, and the means of surveillance.

Second. The proofs that will be necessary to exempt merchandise from the general customs tariff and surtaxes provided for in article 9.

Third. The exceptions which may be alleged to the provisions of article 8 in favor of the agents charged with the surveillance of the zone and of the personnel working within its boundaries. Only such merchandise on which the fiscal taxes have been paid can enter into consumption.

Fourth. The marks, designations, or distinctive signs necessary to identify the products leaving the free zone from similar products of French origin.

Especially when wines or brandies are shipped from the free zone, the barrels and cases should be marked with indelible characters "free zone."

Fifth. Finally, it must provide for the approval of any other expenses necessary to assure the exploitation of the free zone.

ART. 11. Any person who shall have violated or attempted to violate the provisions of articles 6, 7, and 8 of the present law will be punished with a fine ranging from 300 to 5,000 francs. In case of second offense, this fine may be doubled. The products and merchandise will be confiscated.

These violations will be considered as customhouse matters and prosecuted before criminal courts, either at the instance of the district attorney or at the request of the customhouse authorities.

ART. 12. There remains in force and will be applied within the free zone the laws of July 28, 1824, referring to alterations or substitutions of trade names; the law of June 23, 1857, referring to trade and business marks; the law of November 26, 1873, referring to stamps or designs on these trade marks; the treaties and international agreements for the protection of industrial property; and finally, all the provisions of laws or rules in force in maritime ports, inasmuch as they do not conflict with the present law.

Furthermore, there is prohibited in the free zone:

1. The placing on the foreign products either in whole or in part, whether they be raw or manufactured, or upon their wrappings, labels, or other marks of identification, or upon printed forms or any writing attached thereto, of any sign, designation, or indication which would lead to belief that the said product originated entirely in French territory or in the territory of a French colony or possession.

2. The use of any sign, or designation, or indication above referred to, and of every sale or placing on sale of the above-mentioned products bearing such signs, designations, or indications.

The seizure of such illicit articles will be made in accordance with article 19 of the law of June 23, 1857.

Any violation of these provisions will be punished with a fine ranging from 50 to 2,000 francs, and with imprisonment of one month to one year or with either of these penalties only.

ART. 13. Article 463 of the Penal Code is applicable to the infractions defined by the present law.

East

LIBRARY OF CONGRESS



0 029 765 007 5